



CITY COUNCIL STAFF REPORT

MEETING DATE: *June 18, 2003*

Agenda Item # 19

ADJUSTMENT TO GENERAL PLAN MAINTENANCE FEE

RECOMMENDED ACTIONS:

1. Open & close Public Hearing
2. Adopt the Resolution

Prepared By:

Finance Director

Submitted By:

City Manager

EXECUTIVE SUMMARY: Staff has analyzed the cost of preparing and implementing the General Plan and has reviewed the adequacy of the existing 3% "General Plan Maintenance" fee. This surcharge is calculated as a percentage of City charges for building and planning permits. Staff has determined that this fee should be increased to 5% in order to recover the estimated cost benefiting new development incurred by the City in developing and implementing a new General Plan. Attachment A shows how the 5% has been calculated and assumes that 50% of the costs incurred by the City in developing the General Plan and related implementation studies benefits new development. The remaining 50% of the cost is assumed to benefit existing development and is to be paid for from other sources. The existing 3% fee structure would bring approximately \$63,654 into the Community Development Fund in an average year once all other planning and building fees are implemented at a level to fully recover costs incurred in providing the services for which those fees are collected. The proposed General Plan Maintenance fee of 5% would eventually produce \$105,614 in an average year once fees fully recover costs, but would only bring in \$74,700 in 2003/04.

While building fees, in general, are currently set at a level sufficient to fully recover costs, planning fees currently do not recover all costs incurred for those activities. Staff will be returning to the City Council during 2003/04 to discuss potential adjustments to existing planning fees. In general, City practice has been to establish a policy regarding the percentage of costs borne in providing regulation, products, or services, and allow the City Manager to determine the actual percentage of costs. Current City policy, as stated in Municipal Code Chapter 3.50, is to recover 100% of costs reasonably borne in providing regulation, products, or services.

The fee adjustment would be effective in 60 days, or August 18, 2003.

FISCAL IMPACT: If the City Council adopts the proposed fee increase, the City would more accurately recover its costs from those using City services and there should be sufficient revenues in 2003/04 to finance the General Plan Update fund proposed 2003/04 budget.

RESOLUTION NO. 5684

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL REVISING FEES AND SERVICE CHARGES PURSUANT TO TITLE 3, CHAPTER 3.50, OF THE MORGAN HILL MUNICIPAL CODE.

WHEREAS, on September 7, 1988, the City Council of the City of Morgan Hill adopted Ordinance No. 880, N.S., codified as Chapter 3.50 of the Morgan Hill Municipal Code, which establishes city policy as to the percentage of the City's costs to be recovered from users of City services; and,

WHEREAS, consistent with Chapter 3.50, City policy is to recover the full cost of providing special services of a voluntary and limited nature, in order that general tax monies used to fund services of a broader nature, such as police and fire protection, are not diverted and thereby utilized to unfairly and inequitably fund special services; and,

WHEREAS, in order to effectuate its cost recovery policy the City Council has adopted various resolutions setting forth fees and charges, including Resolution No. 5658; and,

WHEREAS, City staff has analyzed the need for adjusting the existing fee for "General Plan Maintenance" and has made available to the public documentation related to the costs of providing those services and related to the revenues produced by those paying fees and charges for those services; and,

WHEREAS, on June 18th, 2003, the City Council held a noticed public hearing on the fees, and duly considered all written and verbal information presented to it, which testimony and exhibits are hereby incorporated into the record of this matter.

NOW, THEREFORE, the City Council of the City of Morgan Hill, based upon all documents, statements and facts known to the City, does hereby resolve:

SECTION 1. Fee Schedule Adoption. Based upon the record before it and the findings set forth above, the City Council hereby adopts the schedule of fees and charges attached hereto and incorporated herein as Exhibit A, so that the fees and charges attached hereto replace the previous fees and charges for all fees and charges listed in Exhibit A. The City Council directs the City Manager to have appropriate City departments apply and collect said fees for identified services.

SECTION 2. Separate Fee For Each Process; Additional Fees and Refunds. All fees set by this resolution are for each identified process or service. Additional fees shall be required for each additional process or service that is requested or required. Where fees are indicated on a per unit basis of measurement, the fee stated is for the identified unit or portion thereof within the indicated

ranges of such units.

SECTION 3. Collection of Fees and Implementation Dates. The City Council hereby orders that all increases in fees specified in Exhibit A be effective August 18, 2003.

SECTION 4. Interpretation. This Resolution may be interpreted by the City Manager. Should there be a conflict in regards to the applicability of the fees, or the charges imposed thereunder, the City Manager is authorized to determine which fee, or combination thereof, should be applied.

SECTION 5. Severability. If any portion of this Resolution is declared invalid by a court of competent jurisdiction then it is the intent of the City Council that all other portions of the Resolution shall be severed and remain in full force and effect.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 18th Day of June, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🏛 CERTIFICATION 🏛

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5684, adopted by the City Council at a Regular Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

EXHIBIT A

| Service No | Account Number | Service Center | Unit | Current Fee July 1, 2003 | Proposed Changes |
|-------------------|-----------------------|--------------------------|-------------|---|--|
| 48 A | 207-37912 | General Plan Maintenance | Application | A surcharge of 3% of the permit fee added to each Bldg. and Planning Permit | A surcharge of 5% of the permit fee added to each Bldg. and Planning Permit |

genplanfee

GENERAL PLAN MAINTENANCE FEE ANALYSIS
6/18/2003

ATTACHMENT A

| | |
|---|----------------|
| Cost of planners (0.52% positions) from proposed 2003/04 budget: | 55,850 |
| Support supplies and services from proposed 2003/04 budget | 9,300 |
| Administrative overhead from proposed 2003/04 budget | 6,077 |
| Estimated average annual cost for General Plan development and related implementation studies | <u>140,000</u> |
| Total estimated annual General Plan Update costs | 211,227 |

| | |
|---|----------------|
| Total estimated annual General Plan Update costs | 211,227 |
| Times 50% benefit to new development | x <u>50%</u> |
| Total General Plan Update costs to be recovered from new development | 105,614 |

| | |
|---|--------------------|
| Total General Plan Update costs to be recovered from new development | 105,614 |
| Divided by average annual planning and building permit revenues | / <u>2,121,804</u> |
| Proposed General Plan Maintenance Fee surcharge | 5% |



CITY COUNCIL STAFF REPORT

MEETING DATE: *June 18, 2003*

DEVELOPMENT IMPACT FEE ADJUSTMENTS

RECOMMENDED ACTIONS:

1. Open and close Public Hearing
2. Introduce the Ordinance
3. Adopt the Resolution

EXECUTIVE SUMMARY: On August 21, 2003, the City Council approved various changes to the City's impact fees, based upon studies conducted by the City's consultants, staff analysis, and public input. At that time, the City Council did not implement a proposed new Community and Recreation Centers impact fee, but did direct staff to return within one year with more detailed information concerning how to fund the Sports Complex (Sports Fields). Since then, the Parks and Recreation Commission recommended, and the City Council approved, reallocating \$2.7 million in Redevelopment Agency (RDA) funding from the Sports Fields to the Aquatics Complex and then filling the \$2.7 million need for the Sports Fields with proposed new impact fee funding. As a result, staff is now proposing that the Community and Recreation Centers impact fee be implemented at this time so that the additional \$2.7 million in funding not provided by the RDA may be realized. The fee would be charged only on residential development and would provide \$376 from each new single family home and \$307 from each new multi-family home, as reflected on Exhibit A. This fee would be fully implemented on August 16, 2003, as proposed.

In addition, staff is proposing that police impact fees be increased for two reasons. First, the estimated acquisition/construction cost has increased from \$7.2 million to \$9.5 million; and second, the cost of financing the estimated \$6.6 million portion of acquisition/construction to be financed, which was previously not included as a cost to be recovered through impact fees, has now been included as a cost to be recovered. The proposed increase would adjust police impact fees by approximately 2.25 times the previously approved level that would be effective January 15, 2005. The proposal would spread this increase over a three year period, as reflected on Exhibit A, so that 1/3 of the increase would be implemented on 8/18/03, 1/3 on 1/15/04, and 1/3 on 1/15/05, and would provide for no additional inflationary increases. This approach takes all estimated future costs over the life of a proposed debt issue and allocates those costs to each new unit of development. The advantage of this approach is that it provides more funds earlier in the process and minimizes the police impact fee cash flow shortfall that is projected to occur because cumulative collections of police impact fees would not be sufficient to cover new development's share of police facility debt service costs as those payments are due. In addition, the amount of the fee for future periods would be known to developers. Alternatively, the City Council could instead implement an overall increase of approximately 29% over the three year period and also increase the fees each year, beginning 1/15/04, by the interest rate to be paid on the debt to be issued. These alternative fees are reflected on Exhibit B. The advantage of this approach is that, in charging new development on a current dollar basis, the fees would be charged to all future development on a basis that recognizes the time value of money. Attachment A summarizes the amount of police impact fees estimated to be collected under the recommended and alternative proposals.

The supporting documentation and methodology for the proposed adjustments to the Community and Recreation Centers impact fee and the Police impact fee are attached as Attachment B. The methodology is based upon the basic methodology provided in the May 9, 2002, Development Impact Fee Study authored by DMG MAXIMUS, and represents staff's additional analysis.

FISCAL IMPACT: The proposed increases would allow the City to fully recover the cost of new facilities from new development to the extent that new development benefits from these improvements.

Agenda Item # 20

Prepared By:

Finance Director

Submitted By:

City Manager

ORDINANCE NO. 1624, NEW SERIES

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING SECTIONS 3.56.050 of CHAPTER 3.56 (Development Impact Mitigation Fees) of TITLE 3 (Revenue and Finance) OF THE MUNICIPAL CODE OF THE CITY OF MORGAN HILL REGARDING DEVELOPMENT IMPACT MITIGATION FEES

WHEREAS, new development within the City of Morgan Hill will result in additional population and business growth, and such growth will place additional burdens on various city facilities, infrastructure and services, requiring construction of expanded and/or new city facilities and services; and,

WHEREAS, all development within the City of Morgan Hill should bear a proportionate financial burden in the construction and improvement of public facilities and services which are necessary to serve the growth engendered by such development; and,

WHEREAS, the imposition of development impact fees is the preferred method of ensuring that new development bears its proportionate share of the cost of public facilities and service improvements; and,

WHEREAS, imposition of impact fees to finance public facilities and service improvements required by new development is necessary in order to avoid adversely impacting existing facilities and services; and,

WHEREAS, consistent with these principles, Chapter 3.56 of the Municipal Code of the City of Morgan Hill establishes Development Impact Mitigation Fees; and,

WHEREAS, Section 3.56.060 of the Municipal Code of the City of Morgan Hill provides for revision of established fees, including increases, by resolution; and,

WHEREAS, the City Council of the City of Morgan Hill has received and duly considered the reports entitled "Development Impact Fee Study," dated May 9, 2002, authored by DMG Maximus, and has considered additional staff analysis presented to the City Council on June 18, 2003; and,

WHEREAS, based upon the DMG Maximus report and City staff analysis, and the evidence presented to it, the City Council deems it necessary that development impact fees be adjusted to ensure that new development in the city pays its proportionate share of public facilities and service improvements necessary to accommodate such development in order to promote the public health, safety and welfare; and,

WHEREAS, the adjustment of development impact fees necessitates minor revisions to the Municipal Code provisions regarding such fees; and,

WHEREAS, a public hearing on adoption of this ordinance was duly noticed, and held as part of a regular City Council meeting held on June 18, 2003, at 7:30 p.m. in the Council chambers located at City Hall, 17555 Peak Avenue; and,

WHEREAS, the City Council has received and duly considered all written and verbal comments provided to it by staff and the public, which comments are hereby incorporated into the record on this matter; and,

NOW, THEREFORE THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, DOES ORDAIN AS FOLLOWS:

SECTION 1. Section 3.56.030 of the Municipal Code of the City of Morgan Hill is hereby amended to provide:

“A. The following development impact fees are established and imposed on the issuance of all building permits for development within the city to finance the cost of the following categories of public facilities and improvements required by new development;

1. General Facilities and Equipment. A development impact fee is established for general facilities and equipment.

2. Wastewater Treatment Facilities. A development impact fee is established for wastewater treatment facilities, trunk line and collection system.

3. Public Safety Facilities, Equipment and Training. A development impact fee is established for law enforcement facilities, equipment and training.

4. Storm Drainage Facilities. A development impact fee is established for storm drainage facilities.

5. Park and Recreation Facilities. A development impact fee is established for park and recreation facilities.

6. Streets, Thoroughfares and Traffic. A development impact fee is established for streets and thoroughfares.

7. Water System Facilities. A development impact fee is established for the water system including land acquisition for wells and tanks.

8. Open Space Facilities. A development impact fee is established for open space facilities.

9. Library Facilities. A development impact fee is established for library facilities.

10. Community and Recreation Centers. A development impact fee is established for community and recreation centers.

11. Administrative Overhead. A development impact fee is established for administrative overhead to cover the cost of general administration of this chapter and any resolution adopted pursuant hereto, performance of accounting tasks associated herewith, supervision and handling of funds, preparation and/or updating of master facilities plans and/or capital financing plans, and the like. This fee shall be set as a percentage of the fees

set forth in subsections (A)(1) through (A)(10) above, which are collected pursuant to this chapter. This fee does not relate to and is not designed to cover administrative costs incurred by the city in the case of any specific public facilities constructed with the fees referenced in subsections (A)(1) through (A)(10), since such project specific administrative costs are included in and shall be recovered from such fees.

B. The city council shall, by resolution, set forth the specific amount of the fees, describe the benefit and impact area on which the fees are imposed, list the specific public improvements to be financed and describe the estimated cost of these facilities.”

SECTION 2. Section 3.56.050 of the Municipal Code of the City of Morgan Hill is hereby amended to provide:

“Each fee, other than the police impact fee, imposed by this chapter shall be adjusted automatically on January 15th of each fiscal year, beginning on January 15, 2004, by a percentage equal to the Engineering Cost Index as published by Engineer News Record for the twelve month period ending the previous March. This automatic adjustment shall not apply to fees which are based on variable factors which result in automatic adjustments or those which specifically indicate otherwise.”

SECTION 3. Section 3.56.070 of the Municipal Code of the City of Morgan Hill is hereby amended to provide:

“Each fee collected pursuant to this chapter shall be deposited in a special fund created to hold the revenue generated by each such fee. Monies within each such fund may be expended only by appropriation by the city council for specific projects which are of the same category as that for which the money was collected. In this regard, the following special funds are created and established for the purposes indicated:

A. A general facilities and equipment fund is established. The general facilities and equipment fund is a fund for payment of the actual or estimated costs of constructing and improving the general municipal facilities within the city, including any required acquisition of land.

B. A wastewater treatment facilities fund is established. The wastewater treatment facilities fund is a fund for payment of the actual or estimated costs of constructing and improving the sewage treatment facilities within the city, and related trunkline and collection system, including any required acquisition of land.

C. A public safety facilities, equipment and training fund is established. The public safety facilities, equipment and training fund is a fund for payment of the actual or estimated costs of actual or estimated costs of public safety, such as police and fire, facilities, equipment and training, including any required acquisition of land.

D. A storm drainage facilities fund is established. The storm drainage facilities fund is a fund for payment of the actual or estimated costs of constructing and improving the storm drain facilities within the city, including any required acquisition of land.

E. A park and recreation facilities fund is established. The park and recreation facilities fund is a fund for payment of the actual or estimated costs of constructing and improving the park and

recreation facilities within the city, including any required acquisition of land, as well as grading, irrigation and turfing costs associated therewith.

F. A streets and thoroughfares fund is established. The streets and thoroughfares fund is a fund for payment of the actual or estimated costs of the design, upgrading or improvement of the traffic network, including traffic signalization and any required acquisition of land.

G. A water system facilities fund is established. The water system facilities fund is a fund for payment of the actual or estimated costs of replacement, quality improvement, and capital expansion of the water system, including land acquisition for wells and tanks.

H. An open space facilities fund is established. The open space facilities fund is a fund for payment of the actual or estimated costs of the design, improvement and acquisition of facilities or land used for the purposes of improving open space considerations.

I. A library facilities fund is established. The library facilities fund is a fund for payment of the actual or estimated costs of the design, upgrade or improvement of library facilities available for use by the general public.

J. A recreation and community centers facilities fund is established. The recreation and community centers facilities fund is a fund for payment of the actual or estimated costs of constructing and improving the community and recreation center facilities within the city, including any required acquisition of land.

K. An administrative overhead fund is established. The administrative overhead fund is a fund for payment of the actual or estimated costs of administering the provisions of this chapter any resolutions adopted pursuant thereto, all consistent with the provisions of Section 3.56.070.”

SECTION 4. Severability. If any part of this Ordinance is held to be invalid or inapplicable to any situation by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance or the applicability of this Ordinance to other situations.

SECTION 5. Exemption from CEQA. Pursuant to Title 14, California Code of Regulations, Sections 15061 and 15273(4), the City Council finds that this ordinance is exempt from the California Environmental Quality Act.

SECTION 6. Effective Date; Publication. This Ordinance shall take effect from and after sixty (60) days after the date of its adoption. The City Clerk is hereby directed to publish this ordinance pursuant to §36933 of the Government Code.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the 18th Day of June 2003, and was finally adopted at a regular meeting

of said Council on the 2nd Day of July 2003, and said ordinance was duly passed and adopted in accordance with law by the following vote:

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:

ATTEST:

APPROVED:

Irma Torrez, City Clerk

Dennis Kennedy, Mayor

∞ CERTIFICATE OF THE CITY CLERK ∞

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Ordinance No. 1624, New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the 2nd Day of July, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE:_____

IRMA TORREZ, City Clerk

RESOLUTION NO. 5686

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL ADOPTING INCREASED DEVELOPMENT IMPACT FEES

WHEREAS, new development within the City of Morgan Hill will result in additional population and business growth, and such growth will place additional burdens on various city facilities, infrastructure and services, requiring construction of expanded and/or new city facilities and services; and,

WHEREAS, all development within the City of Morgan Hill should bear a proportionate financial burden in the construction and improvement of public facilities and services which are necessary to serve the growth engendered by such development; and,

WHEREAS, the imposition of development impact fees is the preferred method of ensuring that new development bears its proportionate share of the cost of public facilities and service improvements; and,

WHEREAS, imposition of impact fees to finance public facilities and service improvements required by new development is necessary in order to avoid adversely impacting existing facilities and services; and,

WHEREAS, consistent with these principles, Chapter 3.56 of the Municipal Code of the City of Morgan Hill establishes Development Impact Mitigation Fees; and,

WHEREAS, Section 3.56.060 of the Municipal Code of the City of Morgan Hill provides for revision of established fees, including increases, by resolution; and,

WHEREAS, Resolution 5592, as adopted by the City Council, has set various fee rates for development impact fees; and,

WHEREAS, the City Council of the City of Morgan Hill has received and duly considered the reports entitled "Development Impact Fee Study," dated May 9, 2002, authored by DMG Maximus, and additional analysis conducted by City of Morgan Hill staff, and presented to the City Council on June 18, 2003; and,

WHEREAS, the DMG Maximus and City staff analysis analyzed the City's existing land use patterns and zoning, and the goals and objectives of the City's general plan; and,

WHEREAS, the DMG Maximus report and City staff analysis determined the public facilities and service improvements engendered by anticipated future development in light of the General Plan and existing and projected land use patterns and zoning; and,

WHEREAS, as the DMG Maximus report and City staff analysis demonstrate, the development impact fees established by this resolution are based upon estimated costs for new public facilities and service improvements, which will be required, incrementally, by new development within the City; and,

WHEREAS, as the DMG Maximus report and City staff analysis demonstrate, the development impact fees established by this resolution do not exceed the reasonable cost of providing public facilities and service improvements occasioned by development projects within the City; and,

WHEREAS, the fees established by the DMG Maximus report and staff analysis rationally relate to the reasonable cost of providing public facilities occasioned by the development projects and service improvements within the City; and,

WHEREAS, a public hearing on adoption of this resolution and the fees outlined in Exhibit A attached hereto was noticed pursuant to and in compliance with Government Code section 6062(a), and set as part of a regular City Council meeting held on June 18, 2003, in the Council chambers located at City Hall, 17555 Peak Avenue; and,

WHEREAS, the DMG Maximus report and City staff analysis, as well as all material supplementary thereto, and all background data referenced in the reports, were available for public inspection and review in the office of the Finance Department of the City of Morgan Hill; and,

WHEREAS, the City Council has received and duly considered all written and verbal comments provided to it by staff and the public, which comments are hereby incorporated into the record on this matter; and,

WHEREAS, the City Council deems it necessary that development impact fees be adjusted to ensure that new development in the city pays its proportionate share of public facilities and service improvements necessary to accommodate such development in order to promote the public health, safety and welfare; and,

WHEREAS, the City Council hereby incorporates the findings made in Municipal Code section 3.56.010, and applies them in support of the adoption of this Resolution.

NOW, THEREFORE, the City Council of the City of Morgan Hill, based upon all documents, statements and facts known to the City, does hereby resolve:

SECTION 1. Findings. The City Council hereby finds as follows:

- A. All provisions set forth above are true and correct, and are hereby incorporated herein as findings of this Council by reference.
- B. The purpose of the fees set forth herein is to finance public facilities and to reduce the impacts of development on public services and facilities caused by new development.
- C. The capital facility fees collected pursuant to this Resolution shall be used to finance only the public facilities and services described or identified in Exhibit A, attached hereto, to which the specific fee relates.
- D. There is a need for public facilities which have not yet been constructed and are required to be constructed to be consistent with the City's General Plan, and to protect the public's health, safety and welfare.
- E. The facts and evidence presented to the City Council establish that there is a reasonable relationship between the need for the described public facilities and the impacts from the type of development described to the City Council for which the corresponding fee is charged.
- F. The facts and evidence presented to the City Council establish that the cost estimates set forth are reasonable cost estimates, and the fees expected to be generated by new development will not exceed these costs.
- G. The fees set forth herein are consistent with the City's General Plan and the Council has considered the effect of the fees on the City's housing needs, as established in the Housing Element of the General Plan, and the regional housing needs.
- H. Based on the evidence submitted to the Council, the contributions made in the context of the Measure P competition are voluntary in nature and are not duplicative of the impact fees.

SECTION 2. Adoption of Fees. Therefore, development impact fees for the City of Morgan Hill are established as stated in Exhibit A, which is attached hereto and incorporated by reference. However, for the police impact fee, if the methodology used in determining the amount of the fee is determined by a court of competent jurisdiction to be unsupported, then the alternative methodology and fees described in Exhibit B for police impact fees shall instead be implemented and any corresponding adjustments and/or refunds made.

SECTION 3. Implementation Dates. The City Council hereby orders that all increases in

development impact fees be effective August 18 2003, subject to the guidelines established below. The City Council finds that this delay in implementation is necessary to (1) encourage the economic well-being of the community through proactive initiatives which leverage private sector investment and involvement, namely lessening some of the cost impacts on projects, and (2) to allow developers certainty in the development process. The City Council further finds that the following guidelines are necessary for proper administration of the fees, and shall be applied by City staff.

- A. Phased-In Increases: Development impact fees shall, for police impact fees, increase at the rates stated in Exhibit A, over a period of three (3) years beginning January 15, 2003.

SECTION 4. Automatic Annual Adjustment. Each fee, other than the police impact fee, fixed herein shall be adjusted automatically on January 15th of each fiscal year, beginning on January 15, 2003, consistent with Section 3.56.050 of the Municipal Code.

For the police impact fee, if the methodology used in determining the amount of the fee is determined by a court of competent jurisdiction to be unsupported, then the alternative methodology and fees described in Exhibit B shall instead be implemented and any corresponding adjustments and/or refunds made. In that case, then the portion of the police impact fee having to do with police training and equipment would be adjusted automatically on January 15th of each fiscal year, beginning on January 15, 2004, consistent with Section 3.56.050 of the Municipal Code. In addition, in that case, the portion of the police impact fee having to do with facilities would be adjusted each January 15 by the coupon interest rate on debt instruments that the City may issue to finance these facilities.

SECTION 5. Refunds, Exemptions, Credits, and Adjustments. Refunds, exemptions, credit and adjustments to payment of impact fees shall be made and/or calculated in accordance with the applicable provisions of Chapter 3.56 of the Municipal Code.

SECTION 6. Chapter 3.56. The provisions of this resolution are subject and subordinate to the provisions of Chapter 3.56 of the Municipal Code, and shall at all times be construed and applied consistent therewith, as the same presently exists or from time to time be hereafter amended.

SECTION 7. Challenges to Resolution. Any judicial action or proceeding to attack, review, set aside or annul this resolution or any provision thereof shall be brought within one hundred and twenty (120) days of its adoption by the City Council.

SECTION 8. Exemption from CEQA. Pursuant to Title 14, California Code of Regulations, Sections 15061 and 15273(4), the City Council finds that this resolution is exempt from the California Environmental Quality Act.

SECTION 9. Severability. If any portion of this Resolution is declared invalid by a court of competent jurisdiction then it is the intent of the City Council that all other portions of the Resolution shall be severed and remain in full force and effect.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 18th Day of June, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🏛️ CERTIFICATION 🏛️

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5686, adopted by the City Council at a Regular Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

| | | 8/18/2003 | | | 1/15/2004 | | 1/15/2005 | | | |
|--|---------------|------------------|---------------------|----------------|---------------------|----------------------|---------------------|---------------------|-----------------------|---------------------|
| UNIT | | EXISTING FEES | PHASE-IN ADJSTMT | TOTAL ##### | PHASE-IN ADJSTMT | 1/15/2004 INDEX** | TOTAL 1/15/2004* | PHASE-IN ADJSTMT | 1/15/2005 INDEX*** | TOTAL 1/15/2005* |
| <u>SINGLE FAMILY RESIDENTIAL - Subdivision</u> | | | | | | | | | | |
| Police | dwelling unit | 141 | 80 | 221 | 80 | N/A | 301 | 80 | N/A | 381 |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 376 | 376 | 0 | ** | 376 | 0 | *** | 376 |
| <u>SINGLE FAMILY RESIDENTIAL - No Subdivision</u> | | | | | | | | | | |
| Police | dwelling unit | 141 | 80 | 221 | 80 | N/A | 301 | 80 | N/A | 381 |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 376 | 376 | 0 | ** | 376 | 0 | *** | 376 |
| <u>MULTI-FAMILY RESIDENTIAL - Subdivision</u> | | | | | | | | | | |
| Police | dwelling unit | 338 | 349 | 687 | 348 | N/A | 1,035 | 348 | N/A | 1,383 |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 307 | 307 | 0 | ** | 307 | 0 | *** | 307 |
| <u>MULTI-FAMILY RESIDENTIAL - No Subdivision</u> | | | | | | | | | | |
| Police | dwelling unit | 338 | 349 | 687 | 348 | N/A | 1,035 | 348 | N/A | 1,383 |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 307 | 307 | 0 | ** | 307 | 0 | *** | 307 |
| <u>COMMERCIAL</u> | | | | | | | | | | |
| Police | acre | 2,831 | 1,847 | 4,678 | 1,847 | N/A | 6,525 | 1,847 | N/A | 8,372 |
| <u>INDUSTRIAL</u> | | | | | | | | | | |
| Police | acre | 418 | 172 | 590 | 172 | N/A | 762 | 172 | N/A | 934 |

* PLUS ENGINEERING RECORD NEWS INDEX, IF APPLICABLE

** THE FEES EFFECTIVE 1/15/04 WILL ALSO BE ADJUSTED AUTOMATICALLY BY THE PERCENTAGE EQUAL TO THE ENGINEERING COST INDEX AS PUBLISHED BY THE ENGINEER NEWS RECORD FOR THE PERIOD MARCH 2002 TO MARCH 2003. HOWEVER, POLICE IMPACT FEES WILL NOT BE SUBJECT TO THIS INDEX ADJUSTMENT.

*** THE FEES EFFECTIVE 1/15/04 WILL ALSO BE ADJUSTED AUTOMATICALLY BY THE PERCENTAGE EQUAL TO THE ENGINEERING COST INDEX AS PUBLISHED BY THE ENGINEER NEWS RECORD FOR THE PERIOD MARCH 2003 TO MARCH 2004 MARCH 2004, WHICH WILL BE IN ADDITION TO THE ENGINEERING COST INDEX ADJUSTMENTS TO BE IMPLEMENTED EFFECTIVE 1/15/04, AS DESCRIBED IN FOOTNOTE** ABOVE. HOWEVER, POLICE IMPACT FEES WILL NOT BE SUBJECT TO THIS INDEX ADJUSTMENT.

N/A: NOT APPLICABLE

| | | EXISTING | 8/18/2003 | TOTAL | 1/15/2004 | 1/15/2004 | TOTAL | 1/15/2005 | 1/15/2005 | 1/15/2005* |
|--|---------------|------------------|---------------|-----------------|-----------------|-----------|------------------|-----------------|-----------|------------|
| UNIT | | FEES | ADJSTMT | ##### | ADJSTMT | INDEX** | 1/15/2004 | ADJSTMT | INDEX*** | INTEREST |
| | | | | | | | | | | ADJSTMT |
| <i>SINGLE FAMILY RESIDENTIAL - Subdivision</i> | | | | | | | | | | |
| Water | dwelling unit | \$ 1,411 | | \$ 1,411 | \$ 205 | TBD | \$ 1,616 | \$ 205 | TBD | N/A |
| Sewer | dwelling unit | 6,525 | | 6,525 | 870 | TBD | 7,395 | 870 | TBD | N/A |
| Public Facilities | dwelling unit | 357 | | 357 | 61 | TBD | 418 | 61 | TBD | N/A |
| Library | dwelling unit | 224 | | 224 | 0 | TBD | 224 | 0 | TBD | N/A |
| Traffic | dwelling unit | 2,442 | | 2,442 | 229 | TBD | 2,671 | 229 | TBD | N/A |
| Police | dwelling unit | 141 | | 141 | 80 | N/A | 221 | 80 | N/A | TBD |
| Fire | dwelling unit | 464 | | 464 | 0 | TBD | 464 | 0 | TBD | N/A |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 376 | 376 | 0 | TBD | 376 | 0 | TBD | N/A |
| Local Drainage | dwelling unit | 1,332 | | 1,332 | 183 | TBD | 1,515 | 183 | TBD | N/A |
| <i>Subtotal before Park</i> | dwelling unit | \$ 12,896 | \$ 376 | \$13,272 | \$ 1,628 | TBD | \$ 14,900 | \$ 1,628 | TBD | TBD |
| Park Improvement | dwelling unit | 886 | | \$ 886 | | TBD | \$ 1,128 | | TBD | N/A |
| Park In Lieu-Subdiv. | dwelling unit | 2,620 | | 2,620 | | TBD | 3,338 | | TBD | N/A |
| Total Park | dwelling unit | \$ 3,506 | | \$ 3,506 | \$ 960 | TBD | \$ 4,466 | \$ 960 | TBD | N/A |
| <i>Total Single Family Residential</i> | | \$ 16,402 | \$ 376 | \$16,778 | \$ 2,588 | TBD | \$ 19,366 | \$ 2,588 | TBD | TBD |
| <i>SINGLE FAMILY RESIDENTIAL - No Subdivision</i> | | | | | | | | | | |
| Water | dwelling unit | \$ 1,411 | | \$ 1,411 | \$ 205 | TBD | \$ 1,616 | \$ 205 | TBD | N/A |
| Sewer | dwelling unit | 6,525 | | 6,525 | 870 | TBD | 7,395 | 870 | TBD | N/A |
| Public Facilities | dwelling unit | 357 | | 357 | 61 | TBD | 418 | 61 | TBD | N/A |
| Library | dwelling unit | 224 | | 224 | 0 | TBD | 224 | 0 | TBD | N/A |
| Traffic | dwelling unit | 2,442 | | 2,442 | 229 | TBD | 2,671 | 229 | TBD | N/A |
| Police | dwelling unit | 141 | 80 | 221 | 80 | N/A | 301 | 80 | N/A | TBD |
| Fire | dwelling unit | 464 | | 464 | 0 | TBD | 464 | 0 | TBD | N/A |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 376 | 376 | 0 | TBD | 376 | 0 | TBD | N/A |
| Local Drainage | dwelling unit | 1,332 | | 1,332 | 183 | TBD | 1,515 | 183 | TBD | N/A |
| <i>Subtotal before Park</i> | dwelling unit | \$ 12,896 | \$ 456 | \$13,352 | \$ 1,628 | TBD | \$ 14,980 | \$ 1,628 | TBD | N/A |
| Park Improvement | dwelling unit | \$ 886 | | \$ 886 | | TBD | \$ 1,128 | | TBD | N/A |
| Park In Lieu-No Sub. | dwelling unit | 2,113 | | 2,113 | | TBD | 2,342 | | TBD | N/A |
| Total Park | dwelling unit | \$ 2,999 | | \$ 2,999 | \$ 471 | TBD | \$ 3,470 | \$ 470 | TBD | N/A |
| <i>Total Single Family Residential</i> | | \$ 15,895 | \$ 456 | \$16,351 | \$ 2,099 | TBD | \$ 18,450 | \$ 2,098 | TBD | N/A |

| | UNIT | EXISTING FEES | 8/18/2003 ADJUSTMT | TOTAL ##### | 1/15/2004 ADJUSTMT | 1/15/2004 INDEX** | 1/15/2004 FEES | 1/15/2005 ADJUSTMT | 1/15/2005 INDEX*** | |
|---|---------------|------------------|-----------------------|-----------------|-----------------------|----------------------|-------------------|-----------------------|-----------------------|-----|
| <u>MULTI-FAMILY RESIDENTIAL - Subdivision</u> | | | | | | | | | | |
| Water | dwelling unit | \$ 1,273 | | \$ 1,273 | \$ 185 | TBD | \$ 1,458 | \$ 185 | TBD | N/A |
| Sewer | dwelling unit | 5,523 | | 5,523 | 736 | TBD | 6,259 | 736 | TBD | N/A |
| Public Facilities | dwelling unit | 299 | | 299 | 47 | TBD | 346 | 46 | TBD | N/A |
| Library | dwelling unit | 188 | | 188 | 0 | TBD | 188 | 0 | TBD | N/A |
| Traffic | dwelling unit | 1,709 | | 1,709 | 161 | TBD | 1,870 | 160 | TBD | N/A |
| Police | dwelling unit | 338 | 349 | 687 | 348 | N/A | 1,035 | 348 | N/A | TBD |
| Fire | dwelling unit | 181 | | 181 | 0 | TBD | 181 | 0 | TBD | N/A |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 307 | 307 | 0 | TBD | 307 | 0 | TBD | N/A |
| Local Drainage | dwelling unit | 566 | | 566 | 215 | TBD | 781 | 214 | TBD | N/A |
| <i>Subtotal before Park</i> | dwelling unit | \$ 10,077 | \$ 656 | \$10,733 | \$ 1,692 | TBD | \$ 12,425 | \$ 1,689 | TBD | N/A |
| Park Improvement | dwelling unit | \$ 737 | | \$ 737 | | TBD | \$ 929 | | TBD | N/A |
| Park In Lieu-Subdiv. | dwelling unit | 2,180 | | 2,180 | | TBD | 2,750 | | TBD | N/A |
| Total Park | dwelling unit | \$ 2,917 | | \$ 2,917 | \$ 762 | TBD | \$ 3,679 | \$ 762 | TBD | N/A |
| Total Multi-Family Residential | | \$ 12,994 | \$ 656 | \$13,650 | \$ 2,454 | TBD | \$ 16,104 | \$ 2,451 | TBD | N/A |
| <u>MULTI-FAMILY RESIDENTIAL - No Subdivision</u> | | | | | | | | | | |
| Water | dwelling unit | \$ 1,273 | | \$ 1,273 | \$ 185 | TBD | \$ 1,458 | \$ 185 | TBD | N/A |
| Sewer | dwelling unit | 5,523 | | 5,523 | 736 | TBD | 6,259 | 736 | TBD | N/A |
| Public Facilities | dwelling unit | 299 | | 299 | 47 | TBD | 346 | 46 | TBD | N/A |
| Library | dwelling unit | 188 | | 188 | 0 | TBD | 188 | 0 | TBD | N/A |
| Traffic | dwelling unit | 1,709 | | 1,709 | 161 | TBD | 1,870 | 160 | TBD | N/A |
| Police | dwelling unit | 338 | 349 | 687 | 348 | N/A | 1,035 | 348 | N/A | TBD |
| Fire | dwelling unit | 181 | | 181 | 0 | TBD | 181 | 0 | TBD | N/A |
| Cmmnty/Recrtn Ctrs | dwelling unit | 0 | 307 | 307 | 0 | TBD | 307 | 0 | TBD | N/A |
| Local Drainage | dwelling unit | 566 | | 566 | 215 | TBD | 781 | 214 | TBD | N/A |
| <i>Subtotal before Park</i> | dwelling unit | \$ 10,077 | \$ 656 | \$10,733 | \$ 1,692 | TBD | \$ 12,425 | \$ 1,689 | TBD | N/A |
| Park Improvement | dwelling unit | \$ 737 | | \$ 737 | | TBD | \$ 929 | | TBD | N/A |
| Park In Lieu-No Sub. | dwelling unit | 1,765 | | 1,765 | | TBD | 1,935 | | TBD | N/A |
| Total Park | | \$ 2,502 | | \$ 2,502 | \$ 362 | TBD | \$ 2,864 | \$ 362 | TBD | N/A |
| Total Multi-Family Residential | | \$ 12,579 | \$ 656 | \$13,235 | \$ 2,054 | TBD | \$ 15,289 | \$ 2,051 | TBD | N/A |

| | UNIT | EXISTING FEES | 8/18/2003 ADJUSTMT | TOTAL ##### | 1/15/2004 ADJUSTMT | 1/15/2004 INDEX** | 1/15/2004 FEES | 1/15/2005 ADJUSTMT | 1/15/2005 INDEX*** | |
|--------------------------|----------------|------------------|-----------------------|----------------|-----------------------|----------------------|-------------------|-----------------------|-----------------------|-----|
| <u>COMMERCIAL</u> | | | | | | | | | | |
| Water | acre | \$ 4,004 | | \$ 4,004 | \$ 582 | TBD | \$ 4,586 | \$ 582 | TBD | N/A |
| Sewer | gallon | 22.32 | | 22.32 | 2.98 | TBD | 25.30 | 2.97 | TBD | N/A |
| Public Facilities | acre | 1,366 | | 1,366 | 401 | TBD | 1,767 | 401 | TBD | N/A |
| Traffic | peak hour trip | 1,997 | | 1,997 | 444 | TBD | 2,441 | 443 | TBD | N/A |
| Police | acre | 2,831 | 1,847 | 4,678 | 1,847 | N/A | 6,525 | 1,847 | N/A | TBD |
| Fire | acre | 1,391 | | 1,391 | 0 | TBD | 1,391 | 0 | TBD | N/A |
| Local Drainage | acre | 8,025 | | 8,025 | 1,131 | TBD | 9,156 | 1,130 | TBD | N/A |
| <u>INDUSTRIAL</u> | | | | | | | | | | |
| Water | acre | \$ 4,004 | | \$ 4,004 | \$ 582 | TBD | \$ 4,586 | \$ 582 | TBD | N/A |
| Sewer | gallon | 22.32 | | 22.32 | 2.98 | TBD | 25.30 | 2.97 | TBD | N/A |
| Public Facilities | acre | 1,122 | | 1,122 | 166 | TBD | 1,288 | 165 | TBD | N/A |
| Traffic | peak hour trip | 1,990 | | 1,990 | 447 | TBD | 2,437 | 447 | TBD | N/A |
| Police | acre | 418 | 172 | 590 | 172 | N/A | 762 | 172 | N/A | TBD |
| Fire | acre | 812 | | 812 | 279 | TBD | 1,091 | 279 | TBD | N/A |
| Local Drainage | acre | 8,025 | | 8,025 | 1,131 | TBD | 9,156 | 1,130 | TBD | N/A |

* THE PORTION OF POLICE IMPACT FEES ATTRIBUTABLE TO POLICE FACILITY COSTS, EFFECTIVE 1/15/05, WILL ALSO BE ADJUSTED AUTOMATICALLY BY THE PERCENTAGE EQUAL TO THE AVERAGE COUPON INTEREST RATE ON OUTSTANDING DEBT ISSUED TO FINANCE THE POLICE FACILITY

** THE FEES EFFECTIVE 1/15/04 WILL ALSO BE ADJUSTED AUTOMATICALLY BY THE PERCENTAGE EQUAL TO THE ENGINEERING COST INDEX AS PUBLISHED BY THE ENGINEER NEWS RECORD FOR THE PERIOD MARCH 2002 TO MARCH 2003. HOWEVER, POLICE IMPACT FEES WILL NOT BE SUBJECT TO THIS INDEX ADJUSTMENT.

*** THE FEES EFFECTIVE 1/15/04 WILL ALSO BE ADJUSTED AUTOMATICALLY BY THE PERCENTAGE EQUAL TO THE ENGINEERING COST INDEX AS PUBLISHED BY THE ENGINEER NEWS RECORD FOR THE PERIOD MARCH 2003 TO MARCH 2004 MARCH 2004, WHICH WILL BE IN ADDITION TO THE ENGINEERING COST INDEX ADJUSTMENTS TO BE IMPLEMENTED EFFECTIVE 1/15/04, AS DESCRIBED IN FOOTNOTE** ABOVE. HOWEVER, POLICE IMPACT FEES WILL NOT BE SUBJECT TO THIS INDEX ADJUSTMENT.

TBD: TO BE DETERMINED

N/A: NOT APPLICABLE

TOTAL
1/15/2005

| | |
|----|--------|
| \$ | 1,821 |
| | 8,265 |
| | 479 |
| | 224 |
| | 2,900 |
| | 301 |
| | 464 |
| | 376 |
| | 1,698 |
| \$ | 16,528 |
| \$ | 1,370 |
| | 4,056 |
| \$ | 5,426 |
| \$ | 21,954 |

| | |
|----|--------|
| \$ | 1,821 |
| | 8,265 |
| | 479 |
| | 224 |
| | 2,900 |
| | 381 |
| | 464 |
| | 376 |
| | 1,698 |
| \$ | 16,608 |
| \$ | 1,370 |
| | 2,570 |
| \$ | 3,940 |
| \$ | 20,548 |

1/15/2005
FEES

| |
|------------------|
| \$ 1,643 |
| 6,995 |
| 392 |
| 188 |
| 2,030 |
| 1,383 |
| 181 |
| 307 |
| 995 |
| <hr/> |
| \$ 14,114 |
| \$ 1,121 |
| 3,320 |
| <hr/> |
| \$ 4,441 |
| <hr/> |
| <u>\$ 18,555</u> |

| |
|------------------|
| \$ 1,643 |
| 6,995 |
| 392 |
| 188 |
| 2,030 |
| 1,383 |
| 181 |
| 307 |
| 995 |
| <hr/> |
| \$ 14,114 |
| \$ 1,121 |
| 2,105 |
| <hr/> |
| \$ 3,226 |
| <hr/> |
| <u>\$ 17,340</u> |

1/15/2005
FEES

\$ 5,168
28.27
2,168
2,884
8,372
1,391
10,286

\$ 5,168
28.27
1,453
2,884
934
1,370
10,286

STED

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G

Development Projections for Police Impact Fees

Attachment A

| Residential | Single Family | Multi-Family |
|----------------------------|---------------|--------------|
| Allocated Units in 2003/04 | 132 | 31 |
| Assumed Units in 2004/05 | 156 | 20 |
| Assumed Units in 2005/06 | 148 | 37 |
| Assumed Units in 2006/07 | 148 | 37 |
| Assumed Units in 2007/08 | 148 | 37 |

| Commercial/Industrial | Commercial | Industrial |
|--------------------------------|------------|------------|
| Projected for 2003/04 (sq ft.) | 86,462 | 100,000 |
| Projected for 2004/05 (sq ft.) | 77,127 | 100,000 |
| Projected for 2005/06 (sq ft.) | 90,155 | 100,000 |
| Projected for 2006/07 (sq ft.) | 90,155 | 100,000 |
| Projected for 2007/08 (sq ft.) | 90,155 | 100,000 |

Recommended Approach (Exhibit A)

| Police IF - Flat Approach | FY 03/04 | FY 04/05 | FY 05/06 | FY 06/07 | FY 07/08 |
|----------------------------------|----------|----------|----------|----------|----------|
| Single-Family Residential | 141 | 221 | 301 | 381 | 381 |
| Multi-Family Residential | 338 | 687 | 1,035 | 1,383 | 1,383 |
| Commercial (per acre) | 4,678 | 6,525 | 8,372 | 8,372 | 8,372 |
| Industrial (per acre) | \$ 590 | \$ 762 | \$ 934 | \$ 934 | \$ 934 |

| Projected Police Impact Fees | FY 03/04 | FY 04/05 | FY 05/06 | FY 06/07 | FY 07/08 |
|------------------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Single-Family Residential | 18,612 | 34,476 | 44,548 | 56,388 | 56,388 |
| Multi-Family Residential | 10,478 | 13,740 | 38,295 | 51,171 | 51,171 |
| Commercial | 18,571 | 23,106 | 34,655 | 34,655 | 34,655 |
| Industrial | 2,709 | 3,499 | 4,288 | 4,288 | 4,288 |
| TOTAL | \$ 50,370 | \$ 74,821 | \$ 121,786 | \$ 146,502 | \$ 146,502 |

Alternative Approach (Exhibit B Fees)

| Police IF - Escalating | FY 03/04 | FY 04/05 | FY 05/06 | FY 06/07 | FY 07/08 |
|-------------------------------|----------|----------|----------|----------|----------|
| Single-Family Residential | 141 | 167 | 193 | 228 | 239 |
| Multi-Family Residential | 338 | 489 | 639 | 826 | 864 |
| Commercial (per acre) | 3,480 | 4,129 | 4,999 | 5,231 | 5,474 |
| Industrial (per acre) | \$ 457 | \$ 495 | \$ 558 | \$ 584 | \$ 611 |

| Projected Police Impact Fees | FY 03/04 | FY 04/05 | FY 05/06 | FY 06/07 | FY 07/08 |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Single-Family Residential | 18,612 | 26,052 | 28,564 | 33,744 | 35,372 |
| Multi-Family Residential | 10,478 | 9,780 | 23,643 | 30,562 | 31,968 |
| Commercial | 13,815 | 14,622 | 20,693 | 21,653 | 22,659 |
| Industrial | 2,098 | 2,273 | 2,562 | 2,681 | 2,805 |
| TOTAL | \$ 45,003 | \$ 52,726 | \$ 75,462 | \$ 88,640 | \$ 92,804 |

| Difference Between Approaches | FY 03/04 | FY 04/05 | FY 05/06 | FY 06/07 | FY 07/08 |
|-------------------------------|----------|----------|----------|----------|----------|
| Annual Difference | 5,366 | 22,095 | 46,324 | 57,862 | 53,698 |
| Cumulative Difference | 5,366 | 27,461 | 73,785 | 131,647 | 185,345 |

ATTACHMENT B
EXECUTIVE SUMMARY

The City of Morgan Hill has retained MAXIMUS to prepare this study to analyze the impacts of development on certain capital facilities, and to calculate development impact fees based on that analysis. City staff has further added to this narrative and adjusted proposed fees based upon additional information. This report documents the data, methodology, and results of that impact fee study. The methods used to calculate impact fees in this study are intended to satisfy all legal requirements governing such fees, including provisions of the U. S. Constitution, the California Constitution, and the California Mitigation Fee Act (Government Code Sections 66000 *et seq.*)

ORGANIZATION OF THE REPORT

Chapter 1 of this report provides an overview of impact fees. It discusses legal requirements for establishing and imposing such fees, as well as methods used in this study to calculate the fees. Chapter 2 contains information on existing and planned development in Morgan Hill, and organizes that data in a form that can be used in the impact fee analysis. Chapters 5 and 7 analyze the impacts of development on specific types of facilities as follows:

Ch. 5. Community & Recreation Centers

Ch. 7. Police Facilities

Each of the chapters listed above identifies facilities eligible for impact fee funding and calculates the maximum impact fee that can be justified for each type of facility based on the information used in the study. Chapter 12 discusses implementation of the impact fee program, including procedures and legal requirements for implementing an impact fee program under California law.

DEVELOPMENT DATA

Forecasts of future development used in this study are intended to represent all additional development in the City from January 2002 to buildout of the City under the current General Plan. It is not necessary for purposes of this study to forecast the timing of development or when buildout will occur, so the City's Residential Development Control System is not a factor in the impact fee analysis. Information on existing development and development potential used in this study was provided by the Planning Division, and is based on the General Plan. Data on population and demographics were taken from the 2000 Census and California Department of Finance Population estimates.

As shown in Chapter 2 of this report, land planned for development in the study area would ultimately support a 67% increase in population to about 59,000, and a 78% in-

crease in total developed acreage. Traffic volume associated with future development, however, is projected to increase by 46% and police calls by 58%. This report addresses facilities needed to meet the service needs of future development.

IMPACT FEE ANALYSIS

Each type of facility addressed in this report was analyzed individually. In each case, the relationship between development and the need for additional facilities was quantified in a way that allows impact fees to be calculated for various categories of development. For each type of facility, a specific, measurable attribute of development was used to represent the demand for additional capital facilities. With some very minor exceptions, the impact fees calculated in this report are based on capital costs only. The following paragraphs briefly discuss factors considered in the analysis of each type of facility

Chapter 5 – Community and Recreation Centers. Chapter 5 addresses impact fees for community and recreation centers. Costs for facilities planned by the City, including the Community and Cultural Center, the Indoor Community Recreation Center, and the Sports and Aquatics Center are allocated to both existing and future development in proportion to population. Allocated RDA funds are applied first to existing development and then to future development, with the remainder to be funded by impact fees. Those costs are allocated on the basis of resident population and then converted to fees per dwelling unit. Because these fees are population-driven, they apply only to residential development.

Chapter 7 – Police Facilities, Equipment, and Training. Chapter 7 addresses impact fees to cover the cost of facilities, equipment and training that will be needed as a result of future development. Costs for the planned new police building are allocated to both existing and future development in proportion to their shares of calls for police service, so that they are paying for the same level of service. Future development's share of that cost is included in the impact fee calculations. The share of cost attributable to existing development is offset by the value of the existing building and expected contributions from the General Fund. In addition to facility costs, anticipated one-time costs for additional vehicles and officer training required as a result of new development are included in the calculations. Costs attributed to future development are allocated on the basis of calls for service, by development type, and then converted into fees per unit of development.

IMPLEMENTATION

Implementation of an impact fee program raises both practical and policy issues. Chapter 12 of this report points out many practical and procedural issues related to the implementation of the City's impact fee program, and outlines administrative procedures mandated by the Government Code with respect to impact fees. Topics covered in that chapter include adoption and collection of fees, accountability for fee revenues, expenditure time limits, reporting and refunding requirements, updating of fees, and staff training.

From the point of view of the City Council, important policy choices must be made regarding the impact fees. The development impact fees calculated in this report are intended to represent the maximum impact fee amount justified by this analysis. Of course, the City Council may choose to adopt fees lower than those calculated in the study. In that event, it is important that the Council identify which facilities are to be funded by the reduced impact fees, and the share of total cost to be recovered through the fees.

It should also be emphasized that all costs, other than costs for police facilities, used in this report are in current dollars. To the extent that construction costs for capital improvements escalate over time, the impact fees should be adjusted to keep pace with that inflation. We recommend annual adjustments based on changes in the *Engineering News Record* Building Cost Index. If the fees are not escalated, the City could experience a significant shortfall in anticipated funding over several years. For police facilities, future dollars, rather than current dollars, are used since the estimated cost of financing would be known up front and is included in total police facility costs.

CHAPTER 1

INTRODUCTION

The City of Morgan Hill has retained MAXIMUS to prepare this study to analyze the impacts of development on the City's capital facilities and to calculate development impact fees based on that analysis. City staff has added to the analysis and has further adjusted the calculations. This report documents the data, methodology, and results of the impact fee study. The methods used to calculate impact fees in this study are intended to satisfy all legal requirements governing such fees, including provisions of the U. S. Constitution, the California Constitution, and the California Mitigation Fee Act (Government Code Sections 66000 *et seq.*). Impact fees calculated in this report are intended to replace the City's existing impact fees.

LEGAL FRAMEWORK

U. S. Constitution. Like all land use regulations, development exactions, including impact fees, are subject to the Fifth Amendment prohibition on taking of private property for public use without just compensation. Both state and federal courts have recognized the imposition of impact fees on development as a legitimate form of land use regulation, provided the fees meet standards intended to protect against regulatory takings. To comply with the Fifth Amendment, development regulations must be shown to substantially advance a legitimate governmental interest. In the case of impact fees, that interest is in the protection of public health, safety, and welfare by ensuring that development is not detrimental to the quality of essential public services.

The U. S. Supreme Court has found that a government agency imposing exactions on development must demonstrate an "essential nexus" between the exaction and the interest being protected (See *Nollan v. California Coastal Commission*, 1987). In a more recent case (*Dolan v. City of Tigard*, 1994), the Court made clear that an agency also must show that an exaction is "roughly proportional" to the burden created by development. *Dolan* is less significant for impact fees than for some other types of exactions (e.g. mandatory dedication of land) because proportionality is inherent in the proper calculation of impact fees. In addition, the *Dolan* decision appeared to set a higher standard of review for mandatory dedications of land than for monetary exactions.

California Constitution. The California Constitution grants broad police power to local governments, including the authority to regulate land use and development. That police power is the source of authority for imposing impact fees on development to pay for infrastructure and capital facilities. Some impact fees have been challenged on grounds that they are special taxes imposed without voter approval in violation of Article XIII A. That objection would be valid only if fees exceeded the cost of providing capital facilities needed to serve new development. If that were the case, then the fees would also run afoul of the U. S. Constitution and the Mitigation Fee Act. Articles XIIC and XIID, added by Proposition 218 in 1996, require voter approval for some "property-related

fees,” but exempt “the imposition of fees or charges as a condition of property development.”

The Mitigation Fee Act. California’s impact fee statute originated in Assembly Bill 1600 during the 1987 session of the Legislature, and took effect in January, 1989. AB 1600 added several sections to the Government Code, beginning with Section 66000. Since that time the impact fee statute has been amended from time to time, and in 1997 was officially titled the “Mitigation Fee Act.” Unless otherwise noted, code sections referenced in this report are from the Government Code.

The Act does not limit the types of capital improvements for which impact fees may be charged. It defines public facilities very broadly to include "public improvements, public services and community amenities." Although the issue is not specifically addressed in the Mitigation Fee Act, other provisions of the Government Code (see Section 65913.8) prohibit the use of impact fees for maintenance or operating costs. Consequently, the fees calculated in this report are based on capital costs only.

The Mitigation Fee Act does not use the term “mitigation fee” except in its recently added official title. Nor does it use the more common term “impact fee.” The Act simply uses the word “fee,” which is defined as “a monetary exaction, other than a tax or special assessment, ... that is charged by a local agency to the applicant in connection with approval of a development project for the purpose of defraying all or a portion of the cost of public facilities related to the development project” To avoid confusion with other types of fees, this report uses the widely-accepted term “impact fee,” which should be understood to mean “fee” as defined in the Mitigation Fee Act.

The Mitigation Fee Act contains requirements for establishing, increasing and imposing impact fees. They are summarized below. It also contains provisions that govern the collection and expenditure of fees, and require annual reports and periodic re-evaluation of impact fee programs. Those administrative requirements are discussed in the Implementation Chapter of this report. Certain fees or charges related to development are exempted from the requirements of the Mitigation Fee Act. Among them are fees in lieu of park land dedication as authorized by the Quimby Act (Section 66477), fees collected pursuant to a reimbursement agreement or developer agreement, and fees for processing development applications.

Required Findings. Section 66001 requires that an agency establishing, increasing or imposing impact fees, must make findings to:

1. Identify the purpose of the fee;
2. Identify the use of the fee; and,
3. Determine that there is a reasonable relationship between:
 - a. The use of the fee and the development type on which it is imposed;

- b. The need for the facility and the type of development on which the fee is imposed; and
- c. The amount of the fee and the facility cost attributable to the development project. (Applies only upon imposition of fees.)

Each of those requirements is discussed in more detail below.

Identifying the Purpose of the Fees. The broad purpose of impact fees is to protect the public health, safety and general welfare by providing for adequate public facilities. The specific purpose of the fees calculated in this study is to fund the construction of certain capital improvements identified in this report. Those improvements are needed to mitigate the impacts of expected development in the City, and thereby prevent deterioration in public services that would result from additional development if impact fee revenues were not available to fund such improvements. Findings with respect to the purpose of a fee should state the purpose of the fees as financing development-related public facilities in a broad category, such as street improvements or water supply system improvements.

Identifying the Use of the Fees. According to Section 66001, if a fee is used to finance public facilities, those facilities must be identified. A capital improvement plan may be used for that purpose, but is not mandatory if the facilities are identified in the General Plan, a Specific Plan, or in other public documents. If a capital improvement plan is used to identify the use of the fees, it must be updated annually by resolution of the governing body at a noticed public hearing. Impact fees calculated in this study are based on specific capital facilities identified elsewhere in this report, which is intended to serve as the public document identifying the use of the fees.

Reasonable Relationship Requirement. As discussed above, Section 66001 requires that, for fees subject to its provisions, a "reasonable relationship" must be demonstrated between:

- 1. the use of the fee and the type of development on which it is imposed;
- 2. the need for a public facility and the type of development on which a fee is imposed; and,
- 3. the amount of the fee and the facility cost attributable to the development on which the fee is imposed.

These three reasonable relationship requirements as defined in the statute parallel the three elements of the "rational nexus" standard which has evolved in the courts to test the validity of development exactions under the U. S. Constitution. Those elements are, "benefit," "impact," and "proportionality," respectively. The reasonable relationship language of the statute is considered less strict than the rational nexus standard used by the courts. Of course, the higher standard controls. We will use the nexus terminology in this report for two reasons: because it is more concise and descriptive, and also to signify that the methods used to calculate impact fees in this study are intended to satisfy the

more demanding constitutional standard. Individual elements of the nexus standard are discussed further in the following paragraphs.

Demonstrating an Impact. All new development in a community creates additional demands on some, or all, public facilities provided by local government. If the supply of facilities is not increased to satisfy that additional demand, the quality or availability of public services for the entire community will deteriorate. Impact fees may be used to recover the cost of development-related facilities, but only to the extent that the need for facilities is a consequence of development that is subject to the fees. The *Nollan* decision reinforced the principle that development exactions may be used only to mitigate conditions created by the developments upon which they are imposed. That principle clearly applies to impact fees. In this study, the impact of development on improvement needs is analyzed in terms of quantifiable relationships between various types of development and the demand for specific facilities, based on applicable level-of-service standards. This report contains all information needed to demonstrate this element of the nexus.

Demonstrating a Benefit. A sufficient benefit relationship requires that impact fee revenues be segregated from other funds and expended only on the facilities for which the fees were charged. Fees must be expended in a timely manner and the facilities funded by the fees must serve the development paying the fees. Nothing in the U.S. Constitution or California law requires that facilities paid for with impact fee revenues be available *exclusively* to developments paying the fees.

Procedures for earmarking and expenditure of fee revenues are mandated by the Mitigation Fees Act, as are procedures to ensure that the fees are expended expeditiously or refunded. All of those requirements are intended to ensure that developments benefit from the impact fees they are required to pay. Thus, an adequate showing of benefit must address procedural as well as substantive issues.

Demonstrating Proportionality. The requirement that exactions be proportional to the impacts of development was clearly stated by the U.S. Supreme Court in the *Dolan* case and is logically necessary to establish a proper nexus. Proportionality is established through the procedures used to identify development-related facility costs, and in the methods used to calculate impact fees for various types of facilities and categories of development. In this study, the demand for facilities is measured in terms of relevant and measurable attributes of development. For example, the need for police facilities is measured by the number of police calls for service generated by a particular type and quantity of development.

In calculating impact fees, costs for development-related facilities are allocated in proportion to the service needs created by different types and quantities of development. The following section describes methods used to allocate facility costs and calculate impact fees in ways that meet the proportionality standard.

Impact Fees for Existing Facilities. It is important to note that impact fees may be used to pay for existing facilities, provided that those facilities are needed to serve additional

development and have the capacity to do so, given relevant level-of-service standards. In other words, it must be possible to show that the fees meet the need and benefit elements of the nexus.

IMPACT FEE CALCULATION METHODOLOGY

Any one of several legitimate methods may be used to calculate impact fees. The choice of a particular method depends primarily on the service characteristics and planning requirements for the facility type being addressed. Each method has advantages and disadvantages in a particular situation, and to some extent they are interchangeable, because they all allocate facility costs in proportion to the needs created by development.

Reduced to its simplest terms, the process of calculating impact fees involves only two steps: determining the cost of development-related capital improvements, and allocating those costs equitably to various types of development. In practice, though, the calculation of impact fees can become quite complicated because of the many variables involved in defining the relationship between development and the need for facilities. The following paragraphs discuss three methods for calculating impact fees and how those methods can be applied.

Plan-based Impact Fee Calculation. The plan-based method allocates costs for a specified set of improvements to a specified set of developments. The improvements are identified by a facility plan and the development is identified by a land use plan. Facility costs are allocated to various categories of development in proportion to the amount of development and the relative intensity of demand for each category. Demand is represented by an appropriate, quantifiable indicator. For example, demand for street improvements is typically measured by the number of vehicle trips generated by development.

In this method, the total cost of relevant facilities is divided by total demand to calculate a cost per unit of demand. Then, that cost per unit of demand is multiplied by the amount of demand per unit of development (e.g. dwelling units or square feet of building area) in each category to arrive at a cost per unit of development. This method implicitly assumes that the entire service capacity of the specified facilities will be absorbed by the planned development, or that any excess capacity is unavoidably related to serving that development. For example, it may be necessary to widen a street from two lanes to four lanes to serve planned development, but that development may not use all of the added capacity. Assuming that the improvements in question are needed only to serve the new development paying the fees, it is legitimate to recover the full cost of the improvements through impact fees.

The plan-based method is often the most workable approach where actual service usage is difficult to measure (as is the case with administrative facilities), or does not directly drive the need for added facilities (as is the case with fire stations). It is also useful for facilities, such as streets, where capacity cannot always be matched closely to demand. This method is relatively inflexible in the sense that it is based on the relationship be-

tween a particular facility plan and a particular land use plan. Consequently, if the land use plan changes significantly, the fees may have to be recalculated.

Capacity-based Impact Fee Calculation. This method can be used only where the capacity of a facility or system is known, and the amount of capacity used by a particular type and quantity of development can be measured or estimated. This method calculates a *rate*, or cost per unit of capacity based on the relationship between total cost and total capacity. It can be applied to any type or amount of development, provided the capacity demand created by that development can be estimated and the facility has adequate capacity available to serve the development. Since the fee calculation does not depend on the type or quantity of development to be served, this method is flexible with respect to changing development plans. Under this method, the cost of unused capacity is not allocated to development, so unused capacity would not be covered by impact fees if it is not absorbed by development. Capacity-based fees are most commonly used for water and wastewater systems.

To calculate a capacity-based impact fee rate, facility cost is divided by facility capacity to arrive at a cost per unit of service. To determine the fee for a particular development project, the cost per unit of capacity is multiplied by the amount of capacity needed by that project. To produce a schedule of impact fees based on standardized units of development (e.g. dwelling units or square feet of building area), the rate is multiplied by the amount of service needed, on average, by those units of development.

Standard-based Impact Fee Calculation. The standard-based method is related to the capacity-based approach in the sense that it is based on a rate, or cost per unit of service. The difference is that with this method, costs are defined from the outset on a generic unit-cost basis and then applied to development according to a standard that sets the amount of service or capacity to be provided for each unit of development.

The standard-based method is useful where facility needs are defined directly by a service standard, and where unit costs can be determined without reference to the total size or capacity of a facility or system. Parks fit that description. It is common for cities or counties to establish a service standard for parks in terms of acres per thousand residents. In addition, the cost per acre for, say, neighborhood parks can usually be estimated without knowing the size of a particular park or the total acreage of parks in the system.

This approach is also useful for facilities such as libraries, where it is possible to estimate a generic cost per square foot before a building is actually designed. One advantage of the standard-based method is that a fee can be established without committing to a particular size of facility. Facility size can be adjusted based on the amount of development that actually occurs, thereby avoiding excess capacity.

FACILITIES ADDRESSED IN THIS STUDY

Impact fees for the following types of facilities and improvements will be addressed in this report:

- Community and Recreation Centers
- Police Facilities

The impact fee analysis for each facility type is presented in a separate chapter of this report.

CHAPTER 2

DEVELOPMENT AND DEMAND DATA

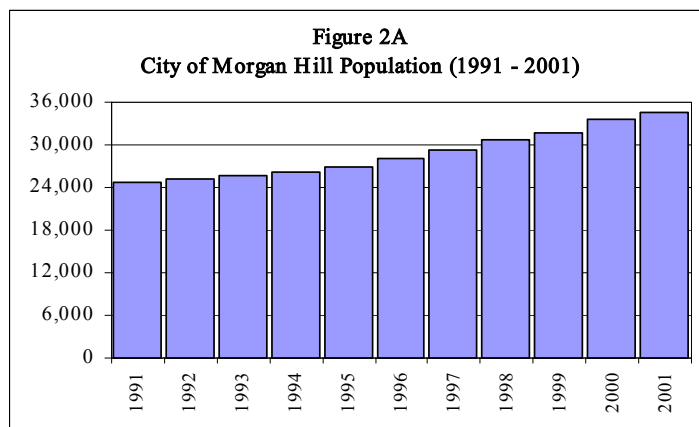
Both existing and planned development must be addressed as part of the nexus analysis required to support the establishment of impact fees. This chapter of the report organizes and correlates information on existing and planned development to provide a framework for the impact fee analysis contained in subsequent chapters of the report. The information in this chapter forms a basis for establishing levels of service, analyzing facility needs, and allocating the cost of capital facilities between existing and future development and among various types of new development.

Data on land use and development used in this study are based on the July 2001 General Plan and on additional information provided by the Morgan Hill Planning Department. Demographic data are from the U.S. Census and California Department of Finance population estimates. Data on existing and planned development used in this study represent the best available estimate of existing and planned development as of July, 2001.

BACKGROUND AND SETTING

Morgan Hill is located along U. S. Highway 101 about twenty miles south of downtown San Jose in southern Santa Clara County. Gilroy lies about ten miles to the south. The City is set in a valley formed by the foothills of the Santa Cruz Mountains to the west and the Mount Hamilton Range to the East. A small portion of the City drains northwestward to San Francisco Bay, but the majority of Morgan Hill's land area drains westward to Monterey Bay. According to the California Department of Finance Demographic Research Unit, the City's estimated population, as of January 1, 2001, was 34,600. Morgan Hill's population growth averaged 3.4% per year over the last ten years and 4.2% over the last five years.

The chart in Figure 2-A depicts the City's estimated January 1 population year-by-year from 1991 through 2001.



RESIDENTIAL DEVELOPMENT CONTROL

A Residential Development Control System (RDSCS) is in effect in Morgan Hill. In 1990 that system was extended through fiscal year 2009/2010 by voter approval of Measure P. The RDSCS sets annual limits on the number of new residential units that may be approved by the City, so as to restrict the City's population to 38,800 in 2010. The City

currently permits about 250 units per year. The General Plan adopted in July 2001 assumes that residential development control will remain in effect through 2020, and that the system will allow for a population of 48,000 at that time.

For purposes of the impact fee analysis, this report assumes that all land within the City's Urban Growth Boundary will eventually be developed as indicated in the Morgan Hill General Plan. That assumption is not intended to conflict with the provisions of the RDCS.

STUDY AREA AND TIME FRAME

The study area addressed in this report encompasses the area contained within the City's Urban Growth Boundary (UGB). The UGB distinguishes land within the City's sphere of influence that is intended for urbanization within the next twenty years from land intended to remain rural and unincorporated during that period. By City policy, the boundary will be adjusted periodically so that a 20-year supply of land remains available for development.

The timeframe for this study extends from the present to buildout of all land designated for development within the UGB. The term "buildout" is used to describe a hypothetical condition in which all currently undeveloped land in the study area has been developed as indicated in the Community Development Element of the General Plan. The time required for buildout depends on the rate at which development occurs. This study does not project a target date for buildout, because the rate and timing of development do not affect the impact fee analysis.

DEVELOPMENT TYPES

The Community Development Element of the Morgan Hill General Plan designates land for development in one of several residential or non-residential land use categories. Each category identifies the types of development allowed as well as the density and intensity of that development. For purposes of the impact fee analysis, some of the land use designations defined in the General Plan are grouped into a single category here. The categories used in this study are listed below:

- Single Family Residential
- Multi-Family Residential
- Commercial
- Industrial
- Public Facilities
- Parks

UNITS OF DEVELOPMENT

Quantities of existing or planned development are measured in terms of certain units of development. Those units are discussed below.

Acreage. Land area is a fundamental attribute of all types of development. One acre is used in this study as the standard unit of development for all non-residential land use categories. In this study, acreage is defined as gross acreage (representing the total acreage of a development site before rights-of-way are dedicated).

Dwelling Units. A dwelling unit (DU) is the most commonly used measure of residential development, and is the standard unit for residential development in this study. The relationship between dwelling units and acreage is referred to as “density,” and is defined by the average number of dwelling units per acre for a particular type of residential development.

DEMAND VARIABLES AND IMPACT FACTORS

In calculating impact fees, the relationship between facility needs and urban development must be quantified in cost allocation formulas. Certain measurable attributes of development (e.g., population, vehicle trip generation) are used in those formulas as “*demand variables*” to reflect the impact of different types and amounts of development on the demand for specific public services, and the facilities that support those services. Demand variables are selected either because they directly measure service demand created by various types of development, or because they are reasonably correlated with demand.

For example, the service standard for parks in a community is typically defined as a ratio of park acreage to population. As population grows, more parks are needed to maintain the desired standard. Logically, then, population is an appropriate yardstick for measuring the impacts of development on the need for additional parks. Similarly, the need for capacity in a street system depends on the volume of traffic the system must handle. Thus the vehicle trip generation rate (the number of vehicle trips per day generated by one unit of development) is an appropriate demand variable to represent the impact of development on the street system.

Each demand variable has a specific value per unit of development for each land use category. Those values may be referred to as *demand factors* or *impact factors*. For example, on average, one single-family detached dwelling unit generates about 1.0 vehicle trips during the p.m. peak hour. Consequently, the peak-hour traffic impact factor for single family residential development is 1.0 trips per dwelling unit. Other land use categories would have different impact factors. Some of the impact factors used in this study are based on widely-accepted standards (e.g., the trip generation rates), while others are based on local conditions (e.g., population, police calls).

The specific demand variables used in this study are discussed below and the actual values of demand factors for each land use category are shown in Table 2.1.

Table 2.1
Demand Factors

| Development Type | Dev Unit ¹ | Acres per Unit ² | Population per Unit ³ | Pk Hr Trips per Unit ⁴ | Police Calls per Unit ⁵ | Runoff Factors ⁶ |
|---------------------------|-----------------------|-----------------------------|----------------------------------|-----------------------------------|------------------------------------|-----------------------------|
| Single-Family Residential | DU | 0.33 | 3.30 | 1.00 | 0.51 | 0.40 |
| Multi-Family Residential | DU | 0.13 | 2.70 | 0.70 | 1.85 | 0.60 |
| Mobile Homes | DU | 0.12 | 2.20 | 0.60 | 0.50 | 0.40 |
| Commercial | Acre | 1.00 | 0.00 | 50.00 | 11.20 | 0.80 |
| Industrial | Acre | 1.00 | 0.00 | 11.00 | 1.25 | 0.80 |
| Public Facilities | Acre | 1.00 | 0.00 | 10.00 | 4.00 | 0.60 |
| Parks | Acre | 1.00 | 0.00 | 5.00 | 0.10 | 0.05 |

¹ Development units: DU = dwelling unit

² Average gross acres per development unit, estimated by the Morgan Hill Planning Department

³ Population per dwelling unit based on data from the 1990 Census, adjusted to fit current data

⁴ Peak hour vehicle trips per unit based on *Traffic Generators*, San Diego Association of Governments

⁵ Police calls per development unit per year based on analysis by the Morgan Hill PD and MAXIMUS

⁶ Estimated impermeable percentage of gross site area

Population per Unit of Development. Population per unit of development is used as a demand variable to calculate impact fees for certain types of facilities in this study. Because population is tied to residential development, the value of this variable for all non-residential land uses is zero.

It is important to emphasize that, rather than using actual population estimates or census numbers, resident population figures used in this study are adjusted to a “full-occupancy” level. That device is intended to account for the fact that actual population fluctuates with vacancy rates, but once a residence is constructed, the City has a responsibility to serve its occupants. Full-occupancy population estimates are established by applying an average persons-per-dwelling factor to the actual number of existing dwelling units, or the projected future dwelling units, in each residential land use category. Persons-per-dwelling factors are based on an analysis of the most recently available Census data.

For certain public facilities, such as parks and libraries, population is a useful measure of service demand, and can be used in setting service levels and allocating facility costs. However, for most public facilities, resident population accounts for only a portion of demand, and does not, alone, represent the impact of all development on those facilities.

Police Calls for Service per Unit of Development. Demand for Police Department services are represented in this study by the average number of calls for service per year generated by a typical unit of development in each land use category. The factors are based on an analysis of actual calls for service for fiscal year 2000-2001 by the Morgan Hill Police Department and MAXIMUS.

DEVELOPMENT DATA

Tables 2.2 through 2.4 present data on existing and planned development within the Urban Growth Boundary by land use category, based on the Community Development Element of the 2001 General Plan. Table 2.2 shows data for existing development as of January, 2002.

Table 2.2
Existing Development (January 2002)

| Development Type | Dev Acres ¹ | Dwelling Units ² | Population ³ | Service Pop ⁴ | Peak Hr Trips ⁵ | Police Calls ⁶ | Acres of ISA ⁷ |
|---------------------------|------------------------|-----------------------------|-------------------------|--------------------------|----------------------------|---------------------------|---------------------------|
| Single-Family Residential | 2,193 | 7,620 | 25,146 | 25,146 | 7,620 | 3,886 | 877.2 |
| Multi-Family Residential | 408 | 3,047 | 8,227 | 8,227 | 2,133 | 5,637 | 244.8 |
| Mobile Homes | 101 | 831 | 1,828 | 1,828 | 499 | 416 | 40.4 |
| Commercial | 434 | 0 | 0 | 6,503 | 21,675 | 4,855 | 346.8 |
| Industrial | 585 | 0 | 0 | 5,850 | 6,435 | 731 | 468.0 |
| Public Facilities | 179 | 0 | 0 | 2,864 | 1,790 | 716 | 107.4 |
| Parks | 292 | 0 | 0 | 0 | 1,460 | 29 | 14.6 |
| Totals | 4,192 | 11,498 | 35,201 | 50,418 | 41,612 | 16,270 | 2,099.2 |

¹ Developed gross acres based on Community Development Element of the 2001 General Plan

² Dwelling unit data from California Department of Finance and the Morgan Hill Planning Dept.

³ Estimated population at 0% vacancy rate = DUs x average population per unit from Table 2.1

⁴ Service population = development units x service population per unit from Table 2.1

⁵ Peak hour trips = development units x peak hour trips per unit from Table 2.1

⁶ Police calls per year = development units x police calls per unit per year from Table 2.1

⁷ Acres of impermeable surface area = gross developed acres x runoff factor from Table 2.1

Table 2.3 presents a forecast of future development within the UGB, as contemplated in the 2001 General Plan.

Table 2.3
Planned Future Development within the Urban Growth Boundary

| Development Type | Dev Acres ¹ | Dwelling Units ² | Population ³ | Service Pop ⁴ | Peak Hr Trips ⁵ | Police Calls ⁶ | Acres of ISA ⁷ |
|---------------------------|------------------------|-----------------------------|-------------------------|--------------------------|----------------------------|---------------------------|---------------------------|
| Single-Family Residential | 2,103 | 5,320 | 17,556 | 17,556 | 5,320 | 2,713 | 841.2 |
| Multi-Family Residential | 294 | 2,280 | 6,156 | 6,156 | 1,596 | 4,218 | 176.4 |
| Mobile Homes | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Commercial | 131 | 0 | 0 | 1,958 | 6,525 | 1,462 | 104.4 |
| Industrial | 571 | 0 | 0 | 5,710 | 6,281 | 714 | 456.8 |
| Public Facilities | 74 | 0 | 0 | 1,184 | 740 | 296 | 44.4 |
| Parks | 112 | 0 | 0 | 0 | 560 | 11 | 5.6 |
| Totals | 3,285 | 7,600 | 23,712 | 32,564 | 21,022 | 9,414 | 1,628.8 |

See Table 2.2 for footnotes

Table 2.4 sums the data from the previous two tables, and represents a forecast of total development within the UGB at buildout.

Table 2.4
Total Development at Buildout within the Urban Growth Boundary

| Development Type | Dev Acres ¹ | Dwelling Units ² | Population ³ | Service Pop ⁴ | Peak Hr Trips ⁵ | Police Calls ⁶ | Acres of ISA ⁷ |
|---------------------------|------------------------|-----------------------------|-------------------------|--------------------------|----------------------------|---------------------------|---------------------------|
| Single-Family Residential | 4,296 | 12,940 | 42,702 | 42,702 | 12,940 | 6,599 | 1,718.4 |
| Multi-Family Residential | 702 | 5,327 | 14,383 | 14,383 | 3,729 | 9,855 | 421.2 |
| Mobile Homes | 101 | 831 | 1,828 | 1,828 | 499 | 416 | 40.4 |
| Commercial | 564 | 0 | 0 | 8,460 | 28,200 | 6,317 | 451.2 |
| Industrial | 1,156 | 0 | 0 | 11,560 | 12,716 | 1,445 | 924.8 |
| Public Facilities | 253 | 0 | 0 | 4,048 | 2,530 | 1,012 | 151.8 |
| Parks | 404 | 0 | 0 | 0 | 2,020 | 40 | 20.2 |
| Totals | 7,476 | 19,098 | 58,913 | 82,981 | 62,634 | 25,684 | 3,728.0 |

See Table 2.2 for footnotes

CHAPTER 5

COMMUNITY AND RECREATION CENTERS

This chapter addresses impact fees for community and recreation center facilities needed to serve future development in Morgan Hill. Information on community and recreation center projects used in this analysis was provided by the Morgan Hill Recreation Division and the Business Assistance and Housing Services Department.

SERVICE AREA

Community and recreation center facilities serve the entire City. The service area used in this chapter is the entire study area, which includes the existing City as well as developable land within the Urban Growth Boundary.

METHODOLOGY

This chapter calculates impact fees using the plan-based method discussed in Chapter 1. Costs for all community and recreation centers identified in this report will be allocated to both existing and future development. The share of cost attributed to existing development will be covered from funds already committed by the City. Any available funds in excess of the amount needed to cover existing development's share of cost will be credited to future development. The remaining future development cost will be used as the basis for impact fees calculated in this chapter. These fees are calculated in current dollars and should be adjusted annually to reflect changes in facility costs.

DEMAND VARIABLE AND LEVEL OF SERVICE

The need for community centers is typically defined as a function of the population served. Population is the most appropriate measure of demand for such facilities, and will be used as the demand variable for calculating impact fees in this chapter. Because the fees are population-related, they apply only to residential development.

No level-of-service standard for community or recreation centers has been formally adopted by Morgan Hill. The City's existing facilities in this category are a small building known as the Friendly Inn (currently leased to the YMCA and used to provide services to seniors in Morgan Hill), a new 26,000 square foot Community and Cultural Center, and a new Community Playhouse. Those projects have been funded and constructed. In addition, the City is planning to construct an Indoor Recreation Center and an Aquatics Complex. This study assumes that the Indoor Recreation Center and Aquatics Complex will serve all existing and future development in Morgan Hill and will be refinanced with Redevelopment Agency funds and with private contributions. One facility, an outdoor Sports Complex, which is planned for construction, is proposed to be partially financed with proposed Community and Recreation Center impact fees.

Because this study does not project a need for future facilities beyond those already planned by the City, it is not necessary to specify a level of service standard for purposes

of this study. Normally, a level of service standard is used to determine facility needs. In this case, the City has made explicit decisions regarding facility needs, and the level of service standard is implied in those decisions.

FACILITY NEEDS

Table 5.1 lists the community and recreation center facilities planned or under construction in Morgan Hill, along with actual or estimated costs.

TABLE 5.1

COMMUNITY AND RECREATION CENTER FACILITIES

| <u>FACILITY</u> | <u>PROJECT COST</u> |
|------------------------|----------------------------|
| SPORTS COMPLEX* | \$10,350,000 |

* Cost shown is project budget

COSTS TO BE RECOVERED FROM IMPACT FEES

Using the costs from Table 5.1, and the projected buildout population, total facility costs are apportioned between existing and future development as shown in Table 5.2 on the next page.

TABLE 5.2

NEW DEVELOPMENT COST SHARE - COMMUNITY & RECREATION CENTERS

| Development Component | Build-out Population* | % of Total | Proportionate Cost Share** |
|------------------------------|------------------------------|-------------------|-----------------------------------|
| Existing Development | 35,201 | 59.8% | \$ 6,189,300 |
| Future Development | 23,712 | 40.2% | \$ 4,160,700 |
| Total | 58,913 | 100.0% | \$10,350,000 |

* See Tables 2.2 & 2.3

** Total cost from Table 5.1

TABLE 5.3
ALLOCATED RDA FUNDS - COMMUNITY & RECREATION CENTERS

| Project | Allocated RDA Funds* |
|---|---------------------------------|
| Sports Complex | \$7,650,000 |
| Total RDA Funding | \$7,650,000 |
| Less: Existing Development Cost Share | (\$6,189,300) |
| Remaining Funds | \$1,460,700 |
| Less: New Development Cost Share | (\$4,160,700) |
| New Development Unfunded Balance | (\$2,700,000) |

* Allocation of RDA funds by January 29, 2003

Table 5.3 applies allocated redevelopment agency (RDA) funds first to the existing development cost share and then to the future development cost share to determine the amount that must be recovered through impact fees.

TABLE 5.4
COST PER CAPITA - COMMUNITY & RECREATION CENTERS

| Total Facility Cost* | Future Development Population** | Cost Per Capita*** |
|-------------------------|------------------------------------|-----------------------|
| \$2,700,000 | 23,712 | \$113.87 |

* See Table 5.3

** See Table 2.4

*** Cost per Capita = Total Facility Cost / Build-out Population

Table 5.4 calculates the per-capita cost to future development of unfunded costs for community and recreation centers. Fees based on that per-capita cost will apply to all future residential development.

IMPACT FEE CALCULATION – FEES PER UNIT OF DEVELOPMENT

In Table 5.5, below, the per-capita cost from Table 5.4 is converted into impact fees per unit of development by development type. To make that conversion, per-capita costs are multiplied by the average number of people per dwelling unit for each type of residential development.

TABLE 5.5
IMPACT FEES PER UNIT OF DEVELOPMENT
COMMUNITY & RECREATION CENTERS

| Development Type | Development Units* | Population Per Unit** | Cost Per Capita*** | Impact Fee Per Unit**** |
|---------------------------|-----------------------|--------------------------|-----------------------|----------------------------|
| Single-Family residential | DU | 3.30 | \$113.87 | \$375.77 |
| Multi-Family residential | DU | 2.70 | \$113.87 | \$307.45 |

* DU = dwelling unit

** See Table 2.1

*** See Table 5.4

**** Impact fee per unit = population per unit x cost per capita

PROJECTED REVENUE

Finally, the impact fees from Table 5.5 can be applied to future development to project the total revenue that will be generated by the fees through buildout, assuming that future development occurs as projected in this study. Table 5.6 shows the revenue projections for the fees calculated in this chapter. These projections represent revenue in current dollars that would be generated by impact fees on anticipated residential development within the Morgan Hill UGB.

TABLE 5.6

PROJECTED REVENUE – IMPACT FEES FOR
COMMUNITY & RECREATION CENTERS

| Development Type | Development Units* | Future Units** | Impact Fee Per Unit*** | Projected Revenue**** |
|---------------------------|-----------------------|-------------------|---------------------------|--------------------------|
| Single-Family residential | DU | 5,320 | \$375.77 | \$1,999,050 |
| Multi-Family residential | DU | 2,280 | \$307.45 | \$ 700,950 |
| Total | | | | \$2,700,000 |

* DU = dwelling unit

** See Table 2.3

*** See Table 5.5

**** Projected revenue = future units x impact fee per unit

It should be noted that all costs used in this report are given in current dollars. To keep pace with changing price levels, the fees calculated above should be adjusted annually for inflation. See the Implementation Chapter for more on indexing of fees.

CHAPTER 7

POLICE FACILITIES, EQUIPMENT & TRAINING

This chapter addresses impact fees for Police Department facilities, equipment, and training needed to serve future development in Morgan Hill. Information on existing and planned facilities is based on the 1999 Morgan Hill Police Facility Master Plan by Edward J. Gee & Associates, as updated in a staff presentation to the City Council on May 28, 2003. Additional facilities information, and information on equipment and training costs, were provided by the Morgan Hill Police Department.

SERVICE AREA

Police Department facilities serve the entire City. The service area used in this chapter is the entire study area, which includes the existing City as well as developable land within the Urban Growth Boundary.

METHODOLOGY

This chapter calculates impact fees for Police Department facilities, equipment and training using the plan-based method discussed in Chapter 1. Plan-based fees are closed-ended, meaning that they depend on assumptions about the ultimate limits of development in the study area. The costs for facilities, equipment, and training are combined into a single impact fee. These impact fees are calculated in future dollars and should not be adjusted annually to reflect changes in facility costs.

FACILITY NEEDS

Morgan Hill is currently developing plans for a new Police Department facility designed to serve all existing and planned development in the study area. The estimated remaining cost of that project, after a reduction for the use of \$2.9 million in available funding, is \$12,577,408 (See Table 7.1, Parts 1 and 2).

DEMAND VARIABLE

In this chapter, demand for police services is measured by calls for service per year. For purposes of impact fee calculations, it is necessary to measure the demand for police services by development type. That was done in this study by analyzing several sample areas of Morgan Hill, each of which encompasses a single type of development. The Morgan Hill Police Department researched calls for service records for 12 sample areas, and determined the number of calls for service originating in each area during fiscal year 2000-2001. The number of calls in each area was divided by the number of development units (dwelling units or acres of commercial or industrial development) in the area to arrive at a demand factor, in terms of calls per unit, for that area. As expected, results varied for different sample areas containing the same type of development. After evaluating the results, and testing the demand factors on existing development data, MAXIMUS selected the lowest sample factor for each development type to be used in this analysis.

The demand factors are used in this analysis to project the impact of future development on the demand for police services, and to allocate facility costs between existing and future development and among land use categories.

LEVEL OF SERVICE

The level of service provided by police departments can be measured in a number of ways. The ratio of sworn officers to population is one popular indicator of service levels. Emergency response time is another. Neither of those methods is useful for purposes of this analysis. The need here is to relate service demand to facilities and other costs of serving expanded demand. Since demand is measured here in terms of calls for service per year, the ratio of those costs to calls for service per year is the most direct level-of-service measure. The impact fees calculated below will be based on providing an equivalent level of service for existing and future development.

FACILITY COST PER CALL FOR SERVICE

To ensure that impact fees calculated in this section are fair and reasonable, the cost of the planned facility will be apportioned between existing and future development in proportion to their shares of demand, as represented by calls for service per year. Table 7.1 shows the allocation of costs between existing and future development. Table 7.1 also illustrates that the method used to allocate costs in this analysis results in an identical level of service for existing and future development, as reflected in the allocated cost per call.

TABLE 7.1
ALLOCATION OF FACILITY COST FOR EXISTING & FUTURE
DEVELOPMENT (PART 1 OF 2)

| Department Component | Calls for Service per Year* | % of Total Calls for Service per Year | Share of Acquisition/ Construction of Facility Cost** | Less: Available Funds | Total Calls for Service Paid with Available Funds*** | Total Remaining Calls for Service **** | Share of Remaining Acquisition/ Construction Costs***** | % Share of Remaining Acquisition/ Construction Costs |
|-------------------------|-----------------------------------|---|---|-----------------------------|---|--|---|--|
| Existing Development | 16,270 | 63.3% | \$6,013,500 | (\$2,900,000) | (7,846) | 8,424 | \$3,113,500 | 47.2% |
| Future Development | 9,414 | 36.7% | \$3,486,500 | | | 9,414 | \$3,486,500 | 52.8% |
| Total | 25,684 | 100.0% | \$9,500,000 | (\$2,900,000) | (7,846) | 17,838 | \$6,600,000 | 100.0% |

* See Tables 2.2 and 2.3

** Shares of total estimated acquisition/construction facility cost allocated based on % of total service calls per year

*** Calls for service paid with available funds = calls for service for existing development x available funds / existing development share of facility acquisition/construction cost

**** Total remaining calls for service = calls for service per year less calls for service paid with available funds

***** Share of remaining acquisition/construction costs = share of acquisition/construction costs less available funds

TABLE 7.1
ALLOCATION OF FACILITY COST FOR EXISTING &
FUTURE DEVELOPMENT (PART 2 OF 2)

| % Share of Remaining Acquisition/Construction Costs* | Allocation of Financing Costs for Facility** | Share of Remaining Acquisition/Construction Costs* | Total Remaining Facility Related Costs*** | Total Remaining Calls for Service* | Allocated Cost Per Call**** |
|--|--|--|---|------------------------------------|-----------------------------|
| 47.2% | \$2,821,337 | \$3,113,500 | \$5,934,837 | 8,424 | \$705 |
| 52.8% | \$3,156,071 | \$3,486,500 | \$6,642,571 | 9,414 | \$705 |
| 100.0% | \$5,977,408 | \$6,600,000 | \$12,577,408 | 17,838 | \$705 |

* See Table 7.1 (Part 1 of 2)

** Projected financing costs of \$5,977,408 for portion of facility not paid with available funds, allocated on basis of % share of remaining acquisition/construction costs

*** Total remaining facility costs = allocation of financing costs for facility plus share of remaining acquisition/construction costs

**** Allocated cost per call = total remaining facility related costs / total remaining calls for service

The share of projected demand related to future development amounts to 36.7% of total projected demand at buildout of developable land within the UGB. The same percentage of total project cost associated with the construction/acquisition of the facility is initially allocated to future development in this analysis, and the remaining costs are attributed to existing development and must be covered by non-impact fee fund sources. Since the City has an estimated \$2.9 million in existing monies available to spend on the facility, the remaining cost of the facility will be financed through the issuance of debt and the debt service payments will be allocated between existing users and future development in the basis of their remaining facility acquisition/construction costs. The \$2.9 million in available funds is comprised of \$1.2 million in police impact fees previously collected from existing development and from an anticipated \$1.7 million that the City is to receive from the sale of land to the Morgan Hill Redevelopment Agency. The balance of the cost for existing development will be contributed by the City using borrowed money to be repaid from the General Fund.

TRAINING AND EQUIPMENT COSTS PER CALL FOR SERVICE

In addition to development-related facility costs, the City faces costs for training and capital equipment to increase staffing in response to demands created by new develop-

ment. At present, the Morgan Hill Police Department has 32 sworn officers and 19 civilian employees. The department expects to need 16 additional sworn officers and 8 additional civilian employees to serve future development in the study area. The projected 50% increase in sworn staff is somewhat less than the projected 58% increase in calls for service related to future development.

The Department requires one new patrol vehicle for each two officers. Each fully equipped vehicle costs approximately \$40,000. In addition, the department provides personal equipment costing approximately \$3,000 per officer and pays for mandatory training costs of \$4,000 per officer for those who have not previously had that training. This analysis assumes that half of new officers require training. On average then, for each new sworn officer hired by the Department, the City's cost for equipment and training amounts to \$25,000. For the 16 additional officers who will be required through buildout, the cost of equipment and training totals \$400,000 at current prices. Table 7.2 calculates the cost per call for service for those expenses.

Table 7.2
Cost per Call for New Officers' Equipment and Training

| Cost Component | Total Cost ¹ | New Dev Calls for Service ² | Allocated Cost per Call ³ |
|---------------------------|-------------------------|--|--------------------------------------|
| Patrol Vehicles | \$320,000 | 9,414 | \$33.99 |
| Personal Safety Equipment | \$48,000 | 9,414 | \$5.10 |
| Training | \$32,000 | 9,414 | \$3.40 |
| Total | \$400,000 | 9,414 | \$42.49 |

¹ Assumes 16 new officers to buildout; one new patrol vehicle @ \$40,000 for every two officers; personal safety equipment at \$3,000 per officer; training at \$4,000 each for half of the new officers.

² See Table 2.3.

³ Allocated cost = total cost / added calls for service

IMPACT FEE CALCULATION – FEES PER UNIT OF DEVELOPMENT

In Table 7.3, the costs per call from Table 7.2 are converted into impact fees per unit of development by development type. To make that conversion, the cost per call is multiplied by the number of calls per year for each type of development.

TABLE 7.3
POLICE FACILITY IMPACT FEES PER UNIT OF DEVELOPMENT

| Development Type | Development Units* | Calls for Service per Year** | Cost per Call for Service*** | Impact Fee per Development Unit**** |
|---------------------------|--------------------|------------------------------|------------------------------|-------------------------------------|
| Single-Family Residential | DU | 0.51 | \$747.49 | \$ 381.22 |
| Multi-Family Residential | DU | 1.85 | \$747.49 | \$1,382.86 |
| Mobile Homes | DU | 0.50 | \$747.49 | \$ 373.75 |
| Commercial | Acre | 11.20 | \$747.49 | \$8,371.89 |
| Industrial | Acre | 1.25 | \$747.49 | \$ 934.36 |
| Public Facilities | Acre | 4.00 | \$747.49 | \$2,989.96 |
| Parks | Acre | 0.10 | \$747.49 | \$ 74.75 |

* DU = dwelling unit

** See Table 2.1

*** Sum of allocated cost per call from Tables 7.1 and 7.2

**** Impact fee per unit of development = calls per unit of development x cost per call

PROJECTED REVENUE

Finally, the impact fees from Table 7.3 can be applied to future development to project the total revenue that will be generated by the fees through buildout, assuming that future development occurs as projected in this study. Table 7.4 shows the revenue projections for the fees calculated in this chapter.

TABLE 7.4

PROJECTED REVENUE – POLICE FACILITIES IMPACT FEES

| Development Type | Development Units* | Future Development Units** | Impact Fee per Development Unit*** | Projected Revenue**** |
|---------------------------|--------------------|----------------------------|------------------------------------|-----------------------|
| Single-Family Residential | DU | 5,320 | \$ 381.22 | \$2,028,090 |
| Multi-Family Residential | DU | 2,280 | \$1,382.86 | \$3,152,921 |
| Mobile Homes | DU | 0 | \$ 373.75 | \$ 0 |
| Commercial | Acre | 131 | \$8,371.89 | \$1,096,718 |
| Industrial | Acre | 571 | \$ 934.36 | \$ 533,520 |
| Public Facilities | Acre | 74 | \$2,989.96 | \$ 221,257 |
| Parks | Acre | 112 | \$ 74.75 | \$ 10 005 |
| Total | | | | \$7,042,571 |

* DU = dwelling unit

** See Table 2.3

*** See Table 6.3

**** Projected revenue = future units of development x impact fee per development unit

So that the police facility costs attributed to parks and public facilities in this chapter can be passed through to future development, the impact fees for those categories are added into capital costs for parks and public facilities in other chapters of this report. Administratively, the corresponding fee revenue must be transferred from those impact fee accounts into the police impact fee account so that it is spent for police facilities.

These projections represent revenue in current dollars that would be generated by impact fees on anticipated development within the Morgan Hill UGB. It should be noted that costs used in this report for police impact fees are given in future dollars. Therefore, these fees should not be adjusted annually for inflation.

CHAPTER 12

IMPLEMENTATION

This chapter of the report contains recommendations for adoption and administration of a development impact fee program based on this study, and for the interpretation and application of impact fees recommended herein. Statutory requirements for the adoption and administration of fees imposed as a condition of development approval are found in the Mitigation Fee Act (Government Code Sections 66000 *et seq.*).

ADOPTION

The form in which development impact fees are adopted, whether by ordinance or resolution, should be determined by the City Attorney. Typically, it is desirable that specific fee amounts be set by resolution to facilitate periodic adjustments. Procedures for adoption of fees subject to the Mitigation Fee Act, including notice and public hearing requirements, are specified in Government Code Section 66016. By statute, those fees do not become effective until 60 days after final action by the Governing body. Actions establishing or increasing fees subject to the Mitigation Act require certain findings, as set forth in Government Code Section 66001 and discussed below and in Chapter 1 of this report. It should be noted that all fees calculated in this report are subject to the provisions of the Mitigation Fee Act. As discussed below, we recommend that, where possible, impact fees be adopted as fees per unit of service instead of, or in addition to, being adopted as schedules of fees per unit of development. For example, an impact fee for street improvements could be adopted as a charge per vehicle trip rather than as a schedule of flat fees per unit of development by development type.

ADMINISTRATION

Several requirements of the California Mitigation Fee Act (Government Code Sections 66000 *et seq.*) address the administration of impact fee programs, including collection and accounting procedures, refunds, updates and reporting. References to code sections in the following paragraphs pertain to the California Government Code.

Cost per Unit of Service vs. Impact Fee per Unit of Development. In general, impact fees recommended in this report are calculated initially in terms of a cost per unit of service, and then converted into fees per unit of development. Service units are attributes of development, such as population and peak hour vehicle trips, which are used to represent demand for various types of public facilities. To implement impact fees, it is necessary to estimate how many units of service are required by a certain development project. For the administrative convenience of the City, and to facilitate cost estimating by builders and developers, it may be useful to convert the cost per unit of service into impact

fees for common units of development, such as dwelling units for residential development. All impact fee rates calculated in this study have been converted into fees per unit of development for the land use categories defined in this study.

Imposition of Fees. Pursuant to the Mitigation Fee Act, when the City imposes an impact fee upon a specific development project, it must make findings to :

1. Identify the purpose of the fee;
2. Identify the use of the fee; and
3. Determine that there is a reasonable relationship between:
 - a. The use of the fee and the development type on which it is imposed;
 - b. The need for the facility and the type of development on which the fee is imposed; and
 - c. The amount of the fee and the facility cost attributable to the development project.

Most of those findings would normally be based on an impact fee study, and this study is intended to provide a basis for all of the required findings. According to the statute, the use of the fee (a., above) may be specified in a capital improvement plan, the General Plan, or other public document. This study is intended to serve as the public document identifying the use of the fees.

In addition, Section 66006, as amended by SB 1693, provides that a local agency, at the time it imposes a fee for public improvements on a specific development project, "... shall identify the public improvement that the fee will be used to finance." For each type of fee calculated in this report, the improvements to be funded by the impact fees are identified either as specific projects, or as a class of projects meeting certain service standards. Consequently, this report provides a basis for the notification required by the statute.

Collection of Fees. Section 66007, provides that a local agency shall not require payment of fees by developers of residential projects prior to the date of final inspection, or issuance of a certificate of occupancy, whichever occurs first. However, "utility service fees" (not defined) may be collected upon application for utility service. In a residential development project of more than one dwelling unit, the agency may choose to collect fees either for individual units or for phases upon final inspection, or for the entire project upon final inspection of the first dwelling unit completed.

An important exception allows fees to be collected at an earlier time if they will be used to reimburse the agency for expenditures previously made, or for improvements or facilities for which money has been appropriated. The agency must also have adopted a construction schedule or plan for the improvement. Statutory restrictions on the time at which fees may be collected do not apply to non-residential development.

Notwithstanding the foregoing restrictions, many cities routinely collect impact fees for all facilities at the time building permits are issued, and builders often find it convenient to pay the fees at that time. In cases where the fees are not collected upon issuance of building permits, Section 66007 provides that the city may require the property owner to execute a contract to pay the fee, and to record that contract as a lien against the property until the fees are paid.

Credit for Improvements provided by Developers. If the City requires a developer, as a condition of project approval, to construct facilities or improvements for which impact fees have been, or will be, charged, the impact fee imposed on that development project, for that type of facility, should be adjusted to reflect a credit for the cost of those facilities or improvements. If the reimbursement would exceed the amount of the fee to be paid by the development for that type of facility, the City may wish to negotiate a reimbursement agreement with the developer.

Credit for Existing Development. If a project involves replacement, redevelopment or intensification of previously existing development, impact fees should be applied only to the portion of the project which represents a net increase in demand for City facilities, as measured by the demand variables used in this study. Since residential service demand is normally estimated on the basis of demand per dwelling unit, an addition to a single family dwelling unit typically would not be subject to an impact fee if it does not increase the number of dwelling units in the structure. If a dwelling unit is added to an existing structure, no impact fee would be charged for the previously existing units. A similar approach can be used for other types of development.

Earmarking of Fee Revenue. Section 66006 mandates that fees be deposited "with other fees for the improvement" in a separate capital facilities account or fund in a manner to avoid any commingling of the fees with other revenues and funds of the local agency, except for temporary investments. Fees must be expended solely for the purpose for which they were collected. Interest earned on the fee revenues must also be placed in the capital account and used for the same purpose.

The language of the law is not clear as to whether depositing fees "with other fees for the improvement" refers to a specific capital improvement or a class of improvements (e.g., street improvements). We are not aware of any city that has interpreted that language to mean that funds must be segregated by individual projects. As a practical matter, that approach is unworkable because it would mean that no pay-as-you-go project could be

constructed until all benefitting development had paid the fees. Common practice is to maintain separate funds or accounts for impact fee revenues by facility category (i.e., streets, park improvements), but not for individual projects. We recommend that approach.

Reporting. As amended by SB 1693 in 1996, Section 66006 requires that once each year, within 180 days of the close of the fiscal year, the local agency must make available to the public the following information for each separate account established to receive impact fee revenues:

1. The amount of the fee;
2. The beginning and ending balance of the account or fund;
3. The amount of the fees collected and interest earned;
4. Identification of each public improvement on which fees were expended and the amount of the expenditures on each improvement, including the percentage of the cost of the public improvement that was funded with fees;
5. Identification of the approximate date by which the construction of a public improvement will commence, if the City determines sufficient funds have been collected to complete financing of an incomplete public improvement;
6. A description of each inter-fund transfer or loan made from the account or fund, including interest rates, repayment dates, and a description of the improvement on which the transfer or loan will be expended;
7. The amount of any refunds or allocations made pursuant to Section 66001, paragraphs (e) and (f).

That information must be reviewed by the City Council at its next regularly scheduled public meeting, but not less than 15 days after the statements are made public.

Findings and Refunds. Prior to the adoption of Government Code amendments contained in SB 1693, a local agency collecting impact fees was required to expend or commit the fee revenue within five years or make findings to justify a continued need for the money. Otherwise, those funds had to be refunded. SB 1693 changed that requirement in material ways.

Now, Section 66001 requires that, for the fifth fiscal year following the first deposit of any impact fee revenue into an account or fund as required by Section 66006, and every five years thereafter, the local agency shall make all of the following findings for any fee revenue that remains unexpended, whether committed or uncommitted:

1. Identify the purpose to which the fee will be put;
2. Demonstrate the reasonable relationship between the fee and the purpose for which it is charged;
3. Identify all sources and amounts of funding anticipated to complete financing of incomplete improvements for which impact fees are to be used;
4. Designate the approximate dates on which the funding necessary to complete financing of those improvements will be deposited into the appropriate account or fund.

Those findings are to be made in conjunction with the annual reports discussed above. If such findings are not made as required by Section 66001, the local agency must refund the moneys in the account or fund. Once the agency determines that sufficient funds have been collected to complete an incomplete improvement for which impact fee revenue is to be used, it must, within 180 days of that determination, identify an approximate date by which construction of the public improvement will be commenced. If the agency fails to comply with that requirement, it must refund impact fee revenue in the account according to procedures specified in the statute.

Costs of Implementation. The ongoing cost of implementing the impact fee program is not included in the fees themselves. Implementation costs would include the staff time involved in applying the fees to specific projects, accounting for fee revenues and expenditures, preparing required annual reports, updating the fees, and preparing forms and public information handouts. We recommend that those costs be included in user fees charged to applicants for processing development applications.

Annual Update of the Capital Improvement Plan. Section 66002 provides that if a local agency adopts a capital improvement plan to identify the use of impact fees, that plan must be adopted and annually updated by a resolution of the governing body at a noticed public hearing. The alternative is to identify improvements in other public documents. Since impact fee calculations in this study include costs for future facilities to be funded by impact fees, we believe it is to the City's advantage to use this report as the public document in which the use of impact fees is identified. In that event, we believe the City would not be required to update its CIP annually to satisfy Section 66002.

Indexing of Impact Fee Rates. Fees, other than police impact fees, calculated in this report are stated in current dollars. Fees other than police impact fees should be adjusted annually to account for construction cost escalation. We recommend the *Engineering News Record* Construction Cost Index as the basis for indexing the cost of future projects. We also recommend that the ordinance or resolution establishing the fees include provi-

sions for annual escalation. Police impact fees are stated in future dollars to reflect the estimated financing cost that will be known up front.

Updates of This Study. The impact fees contained in this report were calculated in spreadsheets designed specifically for that purpose. Those spreadsheets will be provided to the City and they can be used to update fees in the event the City's land use plans and/or facility plans change significantly. The fees should be reviewed and updated at least every five years, unless significant changes in land use or facility plans make it necessary to update the fees more often.

TRAINING AND PUBLIC INFORMATION

Administering an impact fee program effectively requires considerable preparation and training. It is important that those responsible for applying and collecting the fees, and for explaining them to the public, understand both the details of the fee program and its supporting rationale. Before fees are imposed, a staff training workshop is highly desirable if more than a handful of employees will be involved in collecting or accounting for fees.

It is also useful to pay close attention to handouts that provide information to the public regarding impact fees. Impact fees should be clearly distinguished from user fees, such as application and plan review fees, and the purpose and use of particular impact fees should be made clear.

Finally, anyone who is responsible for accounting, capital budgeting, or project management for projects involving impact fees must be fully aware of the restrictions placed on the expenditure of impact fee revenues. The fees recommended in this report are tied to specific improvements and cost estimates. Fees must be expended accordingly and the City must be able to show that funds have been properly expended.



***CITY OF MORGAN HILL AND
REDEVELOPMENT AGENCY STAFF REPORT
MEETING DATE: JUNE 18, 2003***

**TITLE: PUBLIC HEARING FOR ADOPTION OF FISCAL
YEAR 2003/04 BUDGET**

RECOMMENDED ACTION(S):

- 1) Open and close the Public Hearing.**
- 2) Approve Resolution of the City of Morgan Hill Adopting the Fiscal Year 2003/04 Annual City Budget and Adopting the Appropriations Limit for Fiscal Year 2003/04.**
- 3) Approve Resolution of the Redevelopment Agency of the City of Morgan Hill Adopting the FY 2003/04 Annual Agency Budget.**
- 4) Approve the Capital Improvement Plan.**

EXECUTIVE SUMMARY:

Following the May 14, 2003 City Council and Redevelopment Agency Board meeting at which the Proposed Fiscal Year 2003/04 Budget was introduced, the City Council and Agency Board held a Budget and Capital Improvement Program Workshops on May 23 and June 11. Approval of the attached two Resolutions will adopt the City and Redevelopment Agency Budgets and the Fiscal Year 2003/04 Appropriations Limit.

As requested by the State Department of Housing & Community Development, the Redevelopment Agency has included, within the RDA Resolution, a finding that planning and administrative costs attributable to the Housing 20% Set-Aside fund are necessary and proportionate to amounts proposed for actual housing activities during the fiscal year. Each year the Agency approves the proposed use of Low to Moderate Income Housing Funds for such planning and administrative activities as part of this annual budget approval process, which includes a series of public meetings and workshops.

FISCAL IMPACT:

Sufficient resources are available to finance the Proposed Budget. For Fiscal Year 2003/04, the General Fund budget, as amended, reflects a \$371,339 excess of appropriations over estimated revenues, which is proposed to be financed by undesignated fund balance.

| |
|--|
| Agenda Item # 21 |
| Prepared By:  |
| Chu Thai |
| Approved By: Jack Dilles |
| Submitted By: City Manager |

RESOLUTION NO. 5685

A RESOLUTION OF THE CITY COUNCIL OF CITY OF MORGAN HILL ADOPTING THE 2003/04 ANNUAL CITY BUDGET AND ADOPTING THE APPROPRIATIONS LIMIT FOR FISCAL YEAR 2003/04.

WHEREAS, the City of Morgan Hill Budget for the 2003/04 fiscal year was prepared by the City staff and reviewed by the City Manager;

WHEREAS, the City of Morgan Hill Budget for the 2003/04 fiscal year was presented to the City Council on May 14, 2003, was reviewed at Public Workshops on May 23, 2003 and June 11, 2003, and was further reviewed at a Public Hearing on June 18, 2003;

WHEREAS, in accordance with the State Revenue and Taxation Code Section 7910, the City of Morgan Hill's 2003/04 appropriations limit is \$51,859,586, as shown on Schedule A. The appropriations for the 2003/04 fiscal year, as shown on Schedule B, which are subject to the appropriations limit as set forth in Article XIII B of the California Constitution, do not exceed the limit as stated above. The annual adjustment factors that were selected to calculate the 2003/04 limit were: 1) California Per Capita Personal Income adjustment of 2.31%; and 2) City Population Growth of 0.79%; and

WHEREAS, modifications and amendments to the adopted 2003/04 City of Morgan Hill Budget can only be made in accordance with the "Budget Administrative Policies" in the Proposed Budget;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Morgan Hill finds that the Capital Improvement Program is in conformity with the General Plan; and

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Morgan Hill does hereby approve and adopt the City of Morgan Hill 2003/04 Budget, Appropriations Limit and Appropriations Limit Adjustment Factors for Fiscal Year 2003/04.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 18th Day of June, 2003, by the following vote.

| | |
|-----------------|-------------------------|
| AYES: | COUNCIL MEMBERS: |
| NOES: | COUNCIL MEMBERS: |
| ABSTAIN: | COUNCIL MEMBERS: |
| ABSENT: | COUNCIL MEMBERS: |

🏛 CERTIFICATION 🏛

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5685, adopted by the City Council at a Regular Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

**CITY OF MORGAN HILL
SPENDING LIMIT CALCULATION
FISCAL YEAR 2003-04**

APPROPRIATIONS SUBJECT TO LIMIT

| | |
|---|----------------------------|
| Fiscal Year 2003-04 General Fund Revenues | \$16,023,853 |
| Less Non Proceeds of Tax | 4,531,573 |
| Total appropriations subject to limits | <u><u>\$11,492,280</u></u> |

APPROPRIATION LIMIT

| | |
|---|--------------|
| Fiscal year 2002-03 appropriation limit | \$50,291,376 |
|---|--------------|

Plus Change Factor:

| | |
|------------------------------------|--------|
| A. Cost of living adjustment - CPI | 1.0231 |
| B. Population Adjustment | 1.0079 |

| | |
|---------------------|------------|
| Total Change Factor | 1.03118249 |
|---------------------|------------|

| | |
|---------------------------------|------------------|
| Increase in appropriation limit | <u>1,568,210</u> |
|---------------------------------|------------------|

| | |
|--|--------------------------|
| FISCAL YEAR 2003-04 APPROPRIATION LIMIT | <u><u>51,859,586</u></u> |
|--|--------------------------|

| | |
|----------------------------------|------------|
| Remaining appropriation capacity | 40,367,306 |
|----------------------------------|------------|

| | |
|--|-------------------|
| Available capacity as a percent of appropriation limit | <u><u>78%</u></u> |
|--|-------------------|

NOTES

- a. Cost of Living adjustment is based on percentage change in California per capita income.
- b. Population adjustment is based on the greater of annual population change for the City of Morgan Hill or Santa Clara County.

SCHEDULE B

**CITY OF MORGAN HILL
SPENDING LIMIT CALCULATION
FISCAL YEAR 2003-04**

| REVENUE SOURCE | PROCEEDS OF TAX | NON PROCEEDS OF TAX | TOTALS |
|---------------------------------------|----------------------------|--------------------------------|---------------------|
| Property Tax | \$2,217,100 | | 2,217,100 |
| Sales Tax | 4,873,000 | | 4,873,000 |
| Transient Occupancy Tax | 890,000 | | 890,000 |
| Franchise Revenue | 961,180 | | 961,180 |
| Property Transfer Tax | 267,800 | | 267,800 |
| Business License / Other Permits | 203,200 | | 203,200 |
| Motor Vehicle in Lieu | 2,080,000 | | 2,080,000 |
| Fines and Penalties | | 90,700 | 90,700 |
| Use of Money and Property | | 775,550 | 775,550 |
| Other Revenue / Other Agencies | | \$226,400 | 226,400 |
| Police and Fire Fees | | 226,775 | 226,775 |
| Current Service Charges General Govt. | | 2,388,162 | 2,388,162 |
| Transfers | | 823,986 | 823,986 |
| Total | <u>\$11,492,280</u> | <u>\$4,531,573</u> | <u>\$16,023,853</u> |
| Percentage of Total | <u>72%</u> | <u>28%</u> | <u>100.00%</u> |

RESOLUTION NO. MHRA-245

**A RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY
OF MORGAN HILL ADOPTING THE 2003/04 ANNUAL AGENCY
BUDGET**

WHEREAS, the Redevelopment Agency of the City of Morgan Hill Budget for the 2003/04 fiscal year was prepared by Redevelopment Agency and City staff and was reviewed by the City Manager/Executive Director;

WHEREAS, the Redevelopment Agency of the City of Morgan Hill Budget for the 2003/04 fiscal year was presented to the Agency Board of Directors on May 14, 2003, was reviewed at Public Workshops on May 23, 2003 and June 11, 2003, and was further reviewed at a Public Hearing on June 18, 2003;

WHEREAS, modifications and amendments to the adopted 2003/04 Redevelopment Agency of the City of Morgan Hill Budget can only be made in accordance with the "Budget Administrative Policies" described in the Proposed Budget;

NOW, THEREFORE, the Redevelopment Agency Board finds that planning and administrative costs attributable to the Housing 20% Set-Aside fund are necessary and proportionate to amounts proposed for actual housing activities during the fiscal year; and

NOW, THEREFORE, BE IT RESOLVED that the Agency Board of the Redevelopment Agency of the City of Morgan Hill does hereby approve and adopt the Redevelopment Agency of the City of Morgan Hill 2003/04 Budget.

PASSED AND ADOPTED by the Morgan Hill Redevelopment Agency at a Special Meeting held on the 18th Day of June, 2003 by the following vote:

AYES: **AGENCY MEMBERS:**
NOES: **AGENCY MEMBERS:**
ABSTAIN: **AGENCY MEMBERS:**
ABSENT: **AGENCY MEMBERS:**

☪ CERTIFICATION ☪

I, **IRMA TORREZ, AGENCY SECRETARY**, do hereby certify that the foregoing is a true and correct copy of Resolution No. MHRA-245 adopted by the Morgan Hill Redevelopment Agency at a Special Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, AGENCY SECRETARY



**REDEVELOPMENT AGENCY/CITY
COUNCIL STAFF REPORT**
MEETING DATE: June 18, 2003

Agenda Item # 22

Approved By:

BAHS Director

Submitted By:

Executive Director

RENOVATION OF THE ISAACSON GRANARY

RECOMMENDED ACTION(S): 1) Open/Close Public Hearing and
2) Adopt resolutions making findings and authorizing the Executive Director to do everything necessary to execute and implement the Disposition and Development Agreement and related documents including making any minor modifications to the agreements and executing the purchase agreement for the Isaacson Granary.

EXECUTIVE SUMMARY: In February 2003, the Agency/City Council conceptually approved a loan of \$350,000 to Charles Weston and Lesley Miles (the "Developer") for the acquisition of the Isaacson Granary. As a requirement of the Agency's assistance, the Developer will renovate and convert the former granary into 10,000 sq. ft. of commercial/office space.

The key terms of the Disposition and Development Agreement (DDA) are as follows:

- The DDA requires that the Developer purchase the Granary from the Agency concurrently with the Agency's acquisition of the Granary from the owners. Under California Redevelopment Law, the Agency cannot provide direct assistance to the Developer to acquire the Granary from the initial owner, but the Agency can acquire the Granary directly and then concurrently sell the Granary to the Developer.
- The Agency will sell the property to the Developer for \$450,000 which is the same amount as the Agency's purchase price. At that time, the Agency will then provide a purchase money loan of \$350,000 to the Developer for the purpose of financing the Developer's acquisition of the Granary from the Agency.
- The loan is at 3% simple interest.
- Payments are deferred for the first 12 months and then monthly payments are amortized over a 15 year period.
- All unpaid principal and interest will be payable to the Agency on the earlier of five (5) years or when the Developer obtains permanent financing for the project.
- The Developer must acquire the adjacent northern parcel and execute a lease to allow for an interim day worker facility on that parcel.
- The Developer must complete the installation of the Day Worker Center by March 1, 2004.
- The Developer must complete the renovation/conversion of the Granary by June 1, 2004.

The DDA envisions that the transaction will close by June 20, 2003. Attached for your reference are the DDA, purchase agreement, and 33433 report summarizing the economics of the transaction.

FISCAL IMPACT: The BAHS FY02-03 Economic Development budget has sufficient funds to cover the \$350,000 loan including any closing costs. This loan is in addition to the triple façade grant approved for the project.

RESOLUTION NO. 5683

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING A DISPOSITION AND DEVELOPMENT AGREEMENT WITH CHARLES WESTON AND LESLEY MILES.

RECITALS

WHEREAS, in order to effectuate the provisions of the Community Development Plan (the "Redevelopment Plan") for the Ojo de Agua Community Development Project (the "Project Area"), originally adopted by City Ordinance No. 552 on June 3, 1981, and as amended and restated by the Amendment to the Community Development Plan for the Ojo de Agua Community Development Project adopted by City Ordinance No. 1429 N.S. on May 5, 1999, the Morgan Hill Redevelopment Agency (the "Agency") proposes to enter into a Disposition and Development Agreement ("DDA") with Charles Weston, an individual, and Lesley Miles, an individual, husband and wife (collectively, the "Developer") to acquire and renovate the Isaacson Granary ("Granary") located at 17500 Depot Street in Morgan Hill, California for commercial and office uses; and

WHEREAS, the City Council of the City of Morgan Hill has previously determined that the Project Area is an area in which the combination of conditions of blight is so prevalent and so substantial that there is a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical, social and economic burden on the community which cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment. Among other things, the Project Area contains vacant and underutilized properties, properties which suffer from economic dislocation, deterioration or disuse, including depreciated or stagnant property values and impaired investments, and aged and obsolete buildings. Such conditions tend to further deterioration and disuse because of the lack of incentive to landowners and their inability to improve, modernize or rehabilitate their property while the condition of the neighboring property remains unchanged. The Project Area is characterized by the existence of inadequate open spaces, public improvements and public facilities, including inadequate community facilities, which cannot be remedied by private or governmental action without redevelopment. The renovation of the Granary into 10,000 sq. ft. of office/commercial space by the Developer will assist in the elimination of one or more blighting conditions inside the Project Area. The Granary is a key catalyst project in the downtown area located adjacent to the transit center which makes it the eastern gateway to Downtown Morgan Hill. The renovation of the Granary and conversion to commercial/office uses will enhance a major entryway to the City, encouraging private sector investment in the Project Area, thereby facilitating and accelerating the redevelopment of the Project Area. The Developer will also be providing a location for a interim Day Worker Center on an adjacent property which will reduce the opportunity for crime and vandalism and create a more conducive atmosphere for economic development. The Developer will be required to construct Public Improvements at the Granary which will improve the aesthetics of the Project Area, reduce the opportunity for crime and juvenile delinquency, and eliminate a major blighted property, all for the benefit of the health, safety and welfare of the residents and taxpayers of the Project Area and the immediate neighborhood. The renovation

will also prevent further deterioration of an obsolete and dilapidated building which has not been in operation for over seven years. The Developer's rehabilitation of the Granary will correct a hazardous condition by remedying potential hazardous material impacts due to the presence of asbestos containing materials and lead paint in the Granary, and the structure of the Granary will no longer be a public safety hazard to trespassers in and around the Granary building. The proposed transactions contemplated by the DDA will thereby assist in the elimination of conditions of blight within the Project Area which are caused by inadequate public improvements. This in turn will assist in eliminating factor(s) which prevent or substantially hinder the economically viable use or capacity of buildings or lots and will encourage private-sector investment in the Project Area, thereby facilitating the redevelopment of the Project Area; and

WHEREAS, the Agency has entered into a purchase agreement to acquire the Granary and will then sell the Granary to the Developer pursuant to the DDA for \$450,000 and make a purchase money loan pursuant to the DDA of \$350,000 to the Developer for the purpose of financing part of the Developer's acquisition costs for the Granary from the Agency at a rate of 3% simple interest due with the note due the earlier of five years or when the permanent financing is obtained; and

WHEREAS, Health and Safety Code Section 33433 requires that the City Council approve the sale of any property acquired in whole or in part, directly or indirectly, with tax increment moneys for development pursuant to the Redevelopment Plan; and

WHEREAS, Health and Safety Code Section 33433 also requires that a Summary Report be made available for public inspection; and

WHEREAS, the Summary Report has been made available for public inspection in the manner required by Section 33433;

WHEREAS, notice of a joint public meeting to be held by the City Council and the Agency regarding the approval for the DDA has been duly given in the manner required by law;

NOW, THEREFORE, based on the evidence presented to the City Council, including the written staff report and oral testimony in this matter, and the Summary Report prepared pursuant to Section 33433 of the California Health and Safety Code, the City Council does hereby find, determine, resolve and order as follows:

Section 1. The DDA will assist in the elimination of blight in the Project Area and is consistent with the implementation plan for the Project Area adopted pursuant to Health and Safety Code Section 33490.

Section 2. The consideration for the DDA is not less than the fair market value of the Site at its highest and best use in accordance with the Implementation Plan.

Section 3. The City Council hereby approves the DDA and hereby authorizes the Agency to take such actions, perform such deeds and execute, acknowledge and deliver such instruments and documents as it deems necessary in connection therewith.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Regular Meeting held on the 18th Day of June, 2003, by the following vote.

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:

🦉 CERTIFICATION 🦉

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5683, adopted by the City Council at a Regular Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk

RESOLUTION NO. MHRA - 244

A RESOLUTION OF THE MORGAN HILL REDEVELOPMENT AGENCY APPROVING A DISPOSITION AND DEVELOPMENT AGREEMENT WITH CHARLES WESTON AND LESLEY MILES.

RECITALS

WHEREAS, in order to effectuate the provisions of the Community Development Plan (the "Redevelopment Plan") for the Ojo de Agua Community Development Project (the "Project Area"), originally adopted by City Ordinance No. 552 on June 3, 1981, and as amended and restated by the Amendment to the Community Development Plan for the Ojo de Agua Community Development Project adopted by City Ordinance No. 1429 N.S. on May 5, 1999, the Morgan Hill Redevelopment Agency (the "Agency") proposes to enter into a Disposition and Development Agreement ("DDA") with Charles Weston, an individual, and Lesley Miles, an individual, husband and wife (collectively, the "Developer") to acquire and renovate the Isaacson Granary ("Granary") located at 17500 Depot Street in Morgan Hill, California for commercial and office uses; and

WHEREAS, the City Council of the City of Morgan Hill has previously determined that the Project Area is an area in which the combination of conditions of blight is so prevalent and so substantial that there is a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical, social and economic burden on the community which cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment. Among other things, the Project Area contains vacant and underutilized properties, properties which suffer from economic dislocation, deterioration or disuse, including depreciated or stagnant property values and impaired investments, and aged and obsolete buildings. Such conditions tend to further deterioration and disuse because of the lack of incentive to landowners and their inability to improve, modernize or rehabilitate their property while the condition of the neighboring property remains unchanged. The Project Area is characterized by the existence of inadequate open spaces, public improvements and public facilities, including inadequate community facilities, which cannot be remedied by private or governmental action without redevelopment. The renovation of the Granary into 10,000 sq. ft. of office/commercial space by the Developer will assist in the elimination of one or more blighting conditions inside the Project Area. The Granary is a key catalyst project in the downtown area located adjacent to the transit center which makes it the eastern gateway to Downtown Morgan Hill. The renovation of the Granary and conversion to commercial/office uses will enhance a major entryway to the City, encouraging private sector investment in the Project Area, thereby facilitating and accelerating the redevelopment of the Project Area. The Developer will also be providing a location for a interim Day Worker Center on an adjacent property which will reduce the opportunity for crime and vandalism and create a more conducive atmosphere for economic development. The Developer will be required to construct Public Improvements at the Granary which will improve the aesthetics of the Project Area, reduce the opportunity for crime and juvenile delinquency, and eliminate a major blighted property, all for the benefit of the health, safety and welfare of the residents and taxpayers of the Project Area and the immediate neighborhood. The renovation will also prevent further deterioration of an obsolete and dilapidated building which has not been in operation for over seven years. The Developer's rehabilitation of the Granary will correct a

hazardous condition by remedying potential hazardous material impacts due to the presence of asbestos containing materials and lead paint in the Granary, and the structure of the Granary will no longer be a public safety hazard to trespassers in and around the Granary building. The proposed transactions contemplated by the DDA will thereby assist in the elimination of conditions of blight within the Project Area which are caused by inadequate public improvements. This in turn will assist in eliminating factor(s) which prevent or substantially hinder the economically viable use or capacity of buildings or lots and will encourage private-sector investment in the Project Area, thereby facilitating the redevelopment of the Project Area; and

WHEREAS, the Agency has entered into a purchase agreement to acquire the Granary and will then sell the Granary to the Developer pursuant to the DDA for \$450,000 and make a purchase money loan pursuant to the DDA of \$350,000 to the Developer for the purpose of financing part of the Developer's acquisition costs for the Granary from the Agency at a rate of 3% simple interest due with the note due the earlier of five years or when the permanent financing is obtained; and

WHEREAS, Health and Safety Code Section 33433 requires that the City Council approve the sale of any property acquired in whole or in part, directly or indirectly, with tax increment moneys for development pursuant to the Redevelopment Plan; and

WHEREAS, Health and Safety Code Section 33433 also requires that a Summary Report be made available for public inspection; and

WHEREAS, the Summary Report has been made available for public inspection in the manner required by Section 33433;

WHEREAS, notice of a joint public meeting to be held by the City Council and the Agency regarding the approval for the DDA has been duly given in the manner required by law;

NOW, THEREFORE, based on the evidence presented to the Agency, including the written staff report and oral testimony in this matter, and the Summary Report prepared pursuant to Section 33433 of the California Health and Safety Code, the Morgan Hill Redevelopment Agency does hereby find, determine, resolve and order as follows:

Section 1. The DDA will assist in the elimination of blight in the Project Area and is consistent with the implementation plan for the Project Area adopted pursuant to Health and Safety Code Section 33490.

Section 2. The consideration for the DDA is not less than the fair market value of the Site at its highest and best use in accordance with the Implementation Plan.

Section 3. The Agency hereby approves the DDA and hereby directs its Executive Director and/or any other authorized officers to take such actions, perform such deeds

and execute, acknowledge and deliver such instruments and documents as it deems necessary in connection therewith.

PASSED AND ADOPTED by the Morgan Hill Redevelopment Agency at a Special Meeting held on the 18th Day of June, 2003 by the following vote:

AYES: **AGENCY MEMBERS:**
NOES: **AGENCY MEMBERS:**
ABSTAIN: **AGENCY MEMBERS:**
ABSENT: **AGENCY MEMBERS:**

🦉 CERTIFICATION 🦉

I, **IRMA TORREZ, AGENCY SECRETARY**, do hereby certify that the foregoing is a true and correct copy of Resolution No. MHRA-244 adopted by the Morgan Hill Redevelopment Agency at a Special Meeting held on June 18, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, AGENCY SECRETARY



CITY COUNCIL/REDEVELOPMENT

AGENCY MEETING DATE: *June 18, 2003*

UTILITY UNDERGROUNDING FOR THE ISAACSON

GRANARY

RECOMMENDED ACTION(S): Direct staff to work with the Council Economic Development Subcommittee to develop a program to assist developments with either the payment of utility undergrounding in-lieu fees and/or the installation of the utility undergrounding.

EXECUTIVE SUMMARY: In May 2003, the City Council/Redevelopment Agency considered a request from Weston-Miles Architects (WMA) asking that they should not be required to underground the overhead utilities for their renovation of the existing Isaacson Granary into 10,000 sq. ft. of commercial/office space. WMA cited reasons for why the undergrounding improvements should be deferred including that it placed an unanticipated financial burden on their project. However, since that meeting, WMA has reconsidered their request and is now willing to pay the in-lieu fee, but would like the City to allow WMA to pay the fee off in monthly installments over a four (4) year period, at no interest, with the first year of payments deferred.

At the May 2003 meeting, staff reported to the Council that deferred development agreements were not permissible under the current municipal code and had been discontinued for several years. Staff recommended that WMA be allowed to pay the in-lieu fee pursuant to the public hearing process. The City Council directed staff to report back at this meeting regarding options for addressing the utility undergrounding requirements. Staff supports the development of a program to address these concerns and proposes the following options which would only apply to those projects that pay the utility undergrounding in-lieu fee:

- Create a new City program similar to the existing traffic fee/sewer fee financing program which finances in-lieu fees. The key terms we would propose would be up to a \$50,000 loan could be approved administratively, 20% down payment, up to a five year term, and interest rate would be LAIF plus .5% to cover administrative costs.
- Exempt specific areas or projects such as projects in the downtown from paying the fee.
- Modify the threshold for triggering the requirement.
- Create a new or modify existing Agency program to assist with the financing of the utility undergrounding fees.
- Combination of the above options

Most of the above options do not address those projects which actually underground the utilities as a requirement of their project. We would not recommend a program, at this time, to financially assist developments incurring this expense due to limited Agency resources for economic development activities. However, the Council could consider modifying the current municipal code thresholds which trigger the requirement.

Staff recommends that options to develop a program to assist with utility undergrounding be referred to the Council's Economic Development subcommittee for further consideration and recommendation. The Subcommittee could be directed to first develop a program to address WMA's request.

FISCAL IMPACT: Depends on the actions undertaken by the Agency/City Council

Agenda Item # 23

Approved By:

BAHS Director

Submitted By:

Executive Director



CITY COUNCIL STAFF REPORT

MEETING DATE: June 18, 2003

Agenda Item # 24

Prepared By:

**Council Services &
Records Manager/
City Clerk**

Submitted By:

City Manager

CONSIDER REVISION TO AUTO DEALERSHIP STRATEGY

RECOMMENDED ACTIONS: **Consider** the Mayor's request to revise the Auto Dealership Strategy

EXECUTIVE SUMMARY:

Mayor Kennedy is requesting that the Council consider deletion of the last section of the Auto Dealership Strategy. The last section of the Auto Dealership Strategy reads as follows:

Annexation

Work with the property owners of 19+ acre site on Condit (Mushroom farm and adjacent parcel) to annex it into the City; select PUD zoning and limit to motor vehicle sales uses.

The Auto Dealership Strategy is attached for Council reference.

FISCAL IMPACT: The time necessary to prepare this report is accommodated in the Council Services and Records Manager's operating budget.



CITY COUNCIL STAFF REPORT

MEETING DATE: June 18, 2003

DISCUSSION OF PHASING FOR COMMERCIAL PLANNED UNIT DEVELOPMENT (PUD)

RECOMMENDED ACTION(S): Discuss and give direction regarding the phasing of development within PUD zones.

EXECUTIVE SUMMARY: This item was initially scheduled for discussion on the February 19 agenda. At the request of the representative of the property owner(s) the item was continued to the first meeting in June.

On January 16, the Council discussed the proposal to develop a gas station, mini mart, car wash, fast food restaurant and a 10,000 sq. ft. medical office building as Phase I of the PUD development proposed on 29 acres on the southwest quadrant of Tennant Avenue and Highway 101. The purpose of the Council discussion was to provide direction as to whether the ancillary uses proposed as part of a PUD could be constructed prior to larger commercial uses within the PUD. After considerable discussion of the topic, no action was taken which had the effect of confirming the Planning Commission's direction on the same issue. Council member Carr subsequently asked that the matter be reconsidered by the Council so as to provide clearer direction to the applicants.

Land Use Policy 10c of the General Plan requires all commercial areas at freeway interchanges to be zoned PUD to ensure that the properties develop in a coordinated manner addressing such issues as design, signage and circulation. Action 10.5 under this policy states that the Zoning Ordinance should be amended to require ancillary commercial uses, such as fast food restaurants and service stations, on lands around interchanges to be part of larger developments.

Two property owners within the Tennant Ave. PUD would like to move forward with development of their properties. Specifically, one would like to construct a gas station, mini-mart, fast food restaurant and a car wash at what would be the southeast quadrant of the future intersection of Juan Hernandez Dr. and Tennant Ave. The second owner would like to construct 10,000 sq. ft. of medical office building. Pursuant to the PUD ordinance, a master plan and development guidelines have been submitted for the entire 29-acre PUD. At this time, no anchor tenants or major retailers have been identified for the PUD.

Staff met with the applicants' representatives to discuss the possibility of the medical office building moving forward separately since it is not defined as an ancillary use and would not necessarily need to be part of a sub-regional shopping center. Also discussed was the possibility of securing a large retail commercial use to accompany the gas station/fast food uses proposed for that parcel. The applicants' representatives indicated that there are no other commercial users interested at this time and the property owner is not interested in pursuing the medical office building separate from the fast food and carwash gas station use.

The applicants would like the Council to amend or interpret Action 10.5 to allow ancillary uses to precede development of larger/major uses within PUD's.

The Planning Commission discussed this issue at their meeting on September 24, 2002 and the majority (5-2) indicated that the gas station/fast food restaurant should develop as part of the larger development and not be allowed to develop first. Attached for the Council's reference is the January 15 Council minutes and the Planning Commission's 9/24 staff report and minutes.

FISCAL IMPACT: None. Filing fees were paid to cover the cost of processing this application.

Agenda Item # 25

Prepared By:

Senior Planner

Approved By:

Director of Community Development

Submitted By:

City Manager



CITY COUNCIL STAFF REPORT

MEETING DATE: June 18, 2003

Agenda Item # 26

Prepared By:

**Council Services &
Records Manager/
City Clerk**

Submitted By:

City Manager

RESIGNATION OF A PARKS AND RECREATION COMMISSIONER - REQUEST TO FILL VACANCY ON THE PARKS AND RECREATION COMMISSION

RECOMMENDED ACTIONS:

1. **Accept** Wes Rolley's Notice of Resignation from the Parks & Recreation Commission
2. **Confirm** the Mayor's Appointment to Fill Vacancy on the Parks & Recreation Commission, term ending April 1, 2004

EXECUTIVE SUMMARY:

Attached, please find an e-mail submitted by Wes Rolley, tendering his resignation from the Parks and Recreation Commission. Mayor Kennedy has requested that staff schedule the appointment to fill an unexpired term on the Parks and Recreation Commission for the Council's consideration. Mayor Kennedy recommends that the City Council appoint from the pool of applicants previously interviewed on April 30, 2003. The pool of applicants include: Jess Ambriz, Nancy Harris, Donald E. Jensen, and Marlon Spenser. The individual appointed would fill an unexpired term ending April 1, 2004 (one year term). The appointed applicant would be encouraged to submit an application for reappointment in 2004.

Staff has contacted all four applicants and each has indicated that they are still interested in being appointed to the Parks and Recreation Commission. Staff has attached the applications from the above listed individuals for Council reference. The Mayor will announce his recommended appointment at the meeting and seek Council ratification of the appointment. Staff recommends that the Council accept Mr. Rolley's resignation from the Parks and Recreation Commission.

FISCAL IMPACT: The time necessary to prepare this report is accommodated in the Council Services and Records Manager's operating budget.